One company. One focus.

SaskPower Annual Report 2012

SaskPower
Powering the future

Staying power.

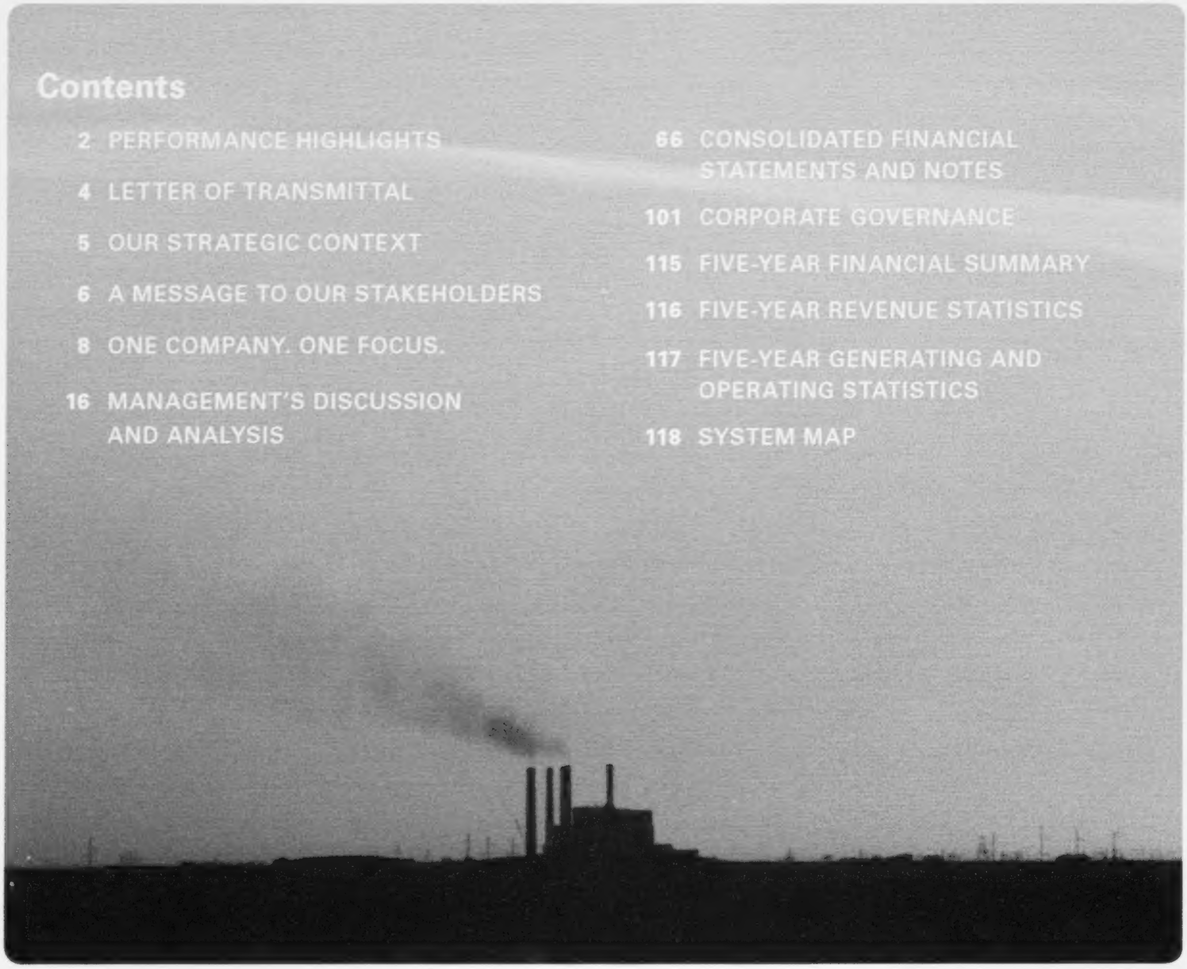
At SaskPower, for almost 85 years the unending dedication of our employees has always energized our company's performance. In 2012, our resolve was tested when June storms pummeled Saskatchewan and our Outage Management Centre received an average of 2,500-3,000 calls per hour. During the most extreme period of high winds and tornados, 200,000 customers were without power and 11 transmission lines were damaged.

SaskPower's highly coordinated response was the most complicated and expensive in our company's history. Our company's current strategic course — a building of bridges across all areas of our business to ensure a unified approach — isn't just critical in getting the lights back on during outages. It's also the foundation for meeting the challenges and opportunities associated with Saskatchewan's economic growth.

Through organizational shifts, heightened communication and enhanced collaboration, more than ever SaskPower employees are all pulling in the same direction — working as one to develop an even more customer-centric and responsive business. Across our company, all planning and actions are aligning to help us realize our new vision of becoming a world-leading power company through innovation, performance and service.

Our singular focus is to ensure that all our company does — whether responding to weather-related outages, developing groundbreaking carbon capture and storage technologies or researching electricity supply options — fuels our aim of providing exceptional customer service and securing our province's energy future.

Cover and inside: Severe June storms required aerial patrols to determine outage locations and approximately 500 power line technicians to make repairs throughout Saskatchewan. Southeast of Prince Albert, a temporary transmission bypass was built and construction of nine new lattice towers was completed in November — one month ahead of schedule.



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Corporate profile

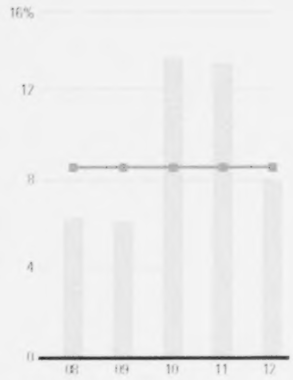
Established in 1929, SaskPower is Saskatchewan's leading energy supplier. We are defined by our commitment to support economic growth and enhance quality of life in our province. Our corporate mission: safe, reliable and sustainable power for our customers.

SaskPower's team is made up of over 2,800 permanent full-time employees. We manage more than $6 billion in generation, transmission and distribution assets. Our company operates three coal-fired power stations, seven hydroelectric stations, six natural gas stations and two wind facilities. Combined, they generate 3,513 megawatts (MW) of electricity.

SaskPower also buys power from the Red Lily Wind Power Facility, SunBridge Wind Power Facility, Prince Albert Pulp Inc., Spy Hill Generating Station, Meridian Cogeneration Station, Cory Cogeneration Station, and NRGreen Kerrobert, Loreburn, Estlin and Alameda Heat Recovery Facilities. At the end of the year, our company's total available generation capacity was 4,104 MW.

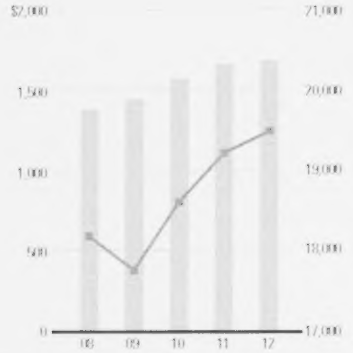
We are responsible for more than 490,000 customers within Saskatchewan's geographic area of approximately 652,000 square kilometres. About three customers are supplied per circuit kilometre. We maintain approximately 151,000 kilometres of power lines, 51 high voltage switching stations and 185 distribution substations. Our company also has interties at the Manitoba, Alberta and North Dakota borders.

Performance highlights



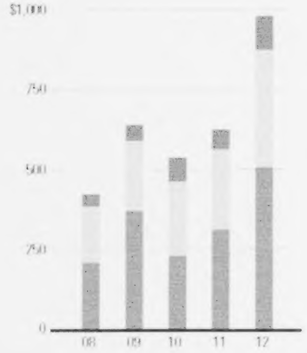
RETURN ON EQUITY VS. LONG-TERM TARGET

▨ RETURN ON EQUITY
—■— LONG-TERM TARGET



SASKATCHEWAN ELECTRICITY SALES

▨ ELECTRICITY SALES (MILLIONS)
—■— ELECTRICITY SALES (GWH)



CAPITAL EXPENDITURES (MILLIONS)

■ GENERATION
■ OTHER
▨ TRANSMISSION AND DISTRIBUTION

Financial indicators

(in millions)	2012	2011	Change
Revenue	**$ 1,862**	$ 1,837	$ 25
Expense	**1,715**	1,598	117
Income before unrealized market value adjustments	**147**	239	(92)
Net income	**153**	248	(95)
Capital expenditures	**981**	625	356
Long-term debt	**2,913**	2,707	206
Short-term advances	**763**	251	512
Finance lease obligations	**552**	555	(3)
Return on equity[1]	**7.9%**	13.2%	(5.3%)
Per cent debt ratio[2]	**67.4%**	63.0%	4.4%

1. Return on equity = (income before unrealized market value adjustments)/(average equity).

2. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term debt + short-term advances + finance lease obligations + bank indebtedness – debt retirement funds – cash and cash equivalents).

Operating statistics

(GWh[1])	2012	2011	Change
Saskatchewan electricity sales	**19,497**	19,226	271
Exports	**460**	449	11
Total electricity sales	**19,957**	19,675	282
Gross electricity supplied	**22,129**	21,611	518
Line losses	**(2,172)**	(1,936)	(236)
Net electricity supplied	**19,957**	19,675	282
Electricity trading purchases	**362**	626	(264)
Line losses	**(1)**	(8)	7
Electricity trading sales	**361**	618	(257)
Generating capacity (net MW[2])	**4,104**	4,094	10
Peak load (net MW[2])	**3,314**	3,195	119
Customers	**490,611**	481,985	8,626

1. One gigawatt hour (GWh) is equivalent to the energy consumed by 125 typical houses in one year.

2. Megawatt (MW) is a unit of bulk power: 1,000 kilowatts. The unit is generally used to describe the output of a commercial generator.

Letter of transmittal

Regina
March 2013

To Her Honour
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.
Lieutenant Governor of Saskatchewan
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 2012.

The report includes the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of the Saskatchewan Power Corporation, all in accordance with *The Power Corporation Act*.

I have the honour to be, Madam, your obedient servant,

Bill Boyd

Honourable Bill Boyd
Minister Responsible for Saskatchewan Power Corporation

Our strategic context

Our vision

A world-leading power company through innovation, performance and service.

Our mission

Safe, reliable, sustainable power.

Our values

Respectful, responsive, progressive.

Our core strategies and key priorities

People [p 6, p 21]

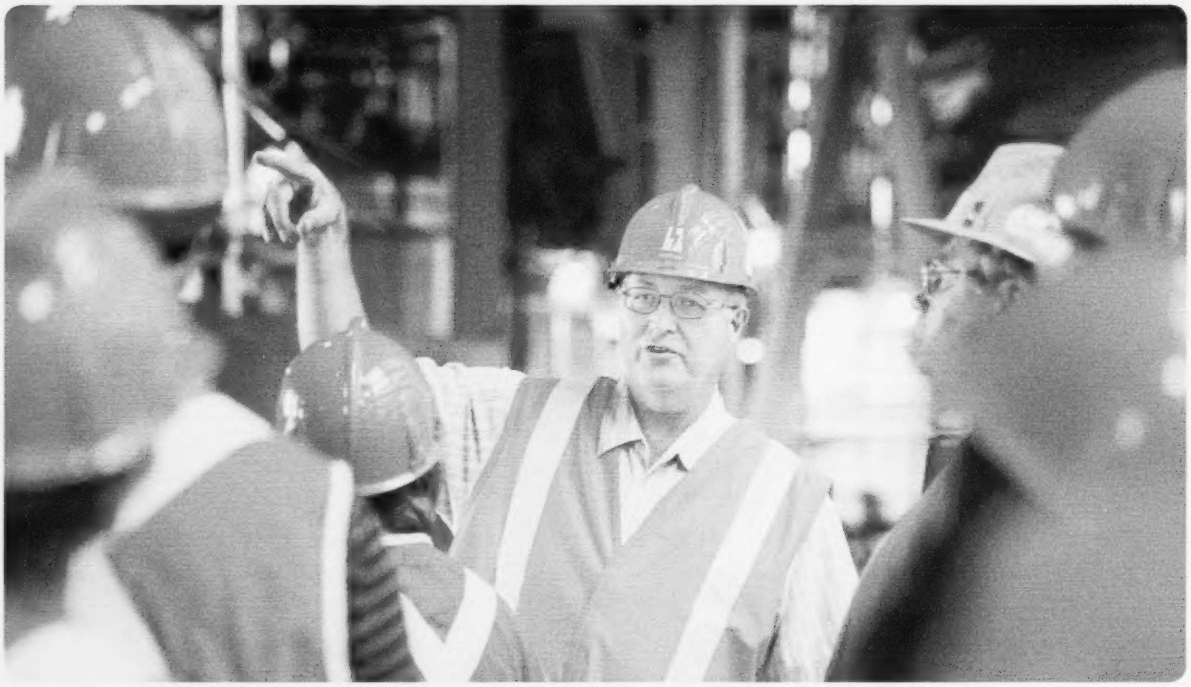
- Customers
- Employees
- Stakeholders

Financial [p 6, p 28]

- Financial management
- Business renewal
- Capital

Stewardship [p 7, p 32]

- Infrastructure
- Safety
- Environment



A message to our stakeholders

In everything we do at SaskPower, we are committed to delivering a reliable, affordable product to meet the needs of our customers, the people of Saskatchewan. In 2012, the environment in which we worked to achieve this goal continued to become even more complex and exciting. More is being asked of us, and we are stepping up to meet those challenges.

Demand for our product continued to rise. Our province is going through a period of incredible growth and change. Its growth rate of 3.1% for 2012 was the third highest in the country, and over 11,400 new jobs were created. With this kind of expansion comes increasing demands on the province's power supply. During the next 10 years, demand is expected to increase 2.9% annually.

In order to meet the ever-increasing demand, SaskPower has a comprehensive, long-term plan for the future. We continue to group our efforts under three core strategies: people, financial and stewardship. This focus ensures that all of SaskPower works together, heading in one direction as we work to reach our goals.

People

Our employees, customers and stakeholders continue to be at the centre of everything we do. They are the reason SaskPower exists.

We strive to be an organization with which our customers want to do business. In 2012, we worked hard to become an even more customer-centric company. Our customer service modernization project has continued, with enhanced online services and increased contact centre hours of operation, so we are there when our customers need us. Our social media presence has increased with the introduction of two unique Twitter feeds, complementing our existing Facebook presence, so we are able to share information as it becomes available.

Through our Service Delivery Renewal Program, we're finding ways to innovate and use new technology in order to serve our customers better, faster and more effectively. The Advanced Metering Infrastructure project was successfully piloted in Hanley in 2012 in preparation for province-wide deployment beginning in 2013. Once complete, this project will allow both SaskPower and our customers to monitor consumption quickly and accurately, and will lay the foundation for faster identification and tracking of power outages in the future. Additionally, the centralization of our schedule and dispatch functions and installation of laptops in service vehicles have provided faster and more reliable service to our customers as well as increased efficiencies for our employees in the field.

In 2012, SaskPower is proud to have been named one of Canada's Best Diversity Employers for the fifth year in a row, and one of the Best Employers for New Canadians and Top Employers for Young People for the first time. During a time of intense growth and service requirements, mixed with a growing number of retirements as our province's workforce ages, we managed a record number of hires. Having the right people in place at the right time is essential to providing a reliable and sustainable product.

Safety is always #1 at SaskPower. It is at the centre of everything we do. We consistently meet our performance targets in this area, and we will continue to rise to meet new challenges that come to light as our workforce changes.

Planning for our future depends on strong relationships with Saskatchewan's First Nations and Métis people. We have initiatives underway designed to enhance our connection to Aboriginal communities through our procurement, employment, training and investment practices. For example, we have developed a strategic framework for engaging Aboriginal groups and communities in the development of power projects. We're working closely with several First Nations groups that have potential power projects, the majority of which are located in northern Saskatchewan, on or close to reserves and in traditional territories. This policy provides Aboriginal communities with the capacity to develop projects and access to capital where appropriate. SaskPower can also assist with finding prospective funding partners and other sources of financial support.

In addition, in 2012 SaskPower launched a program to provide employment at the Island Falls Hydroelectric Station for four graduates of Sandy Bay's Hector Thiboutot Community School each year. Students will benefit from hands-on experience as they become better qualified for permanent positions at the facility in the future.

Financial

SaskPower is an important part of our province's economy, and we take that responsibility seriously.

SaskPower enjoyed solid economic performance in 2012. Income returned to more historic levels, at $147 million. Once again, we experienced a slight increase in Saskatchewan electricity sales and export sales.

For the first time since 2008, we also paid a dividend to our shareholder. In 2012, that dividend was $120 million, which was used to assist with flood recovery efforts in southern Saskatchewan.

Fuel costs rose in 2012, and we faced increased costs due to summer storm damage, as well as growing depreciation and finance charges resulting from record capital spending of $981 million. Despite increased expenses, return on equity was 7.9%, slightly higher than budget for the year.

Through our Business Renewal Program, we are decreasing financing charges, adjusting capital structure, optimizing the way we use our assets and reshaping our procurement practices.

As we work to renew our aging infrastructure and grow with Saskatchewan, we will continue to be committed to managing costs and increasing efficiencies to maintain a competitive rate structure.

Stewardship

Meeting the increasing demands of Saskatchewan takes planning. For the first time in our company's history, we are examining potential electricity generation scenarios 40 years into the future. This process will help us examine all the options available so that we can continue to ensure a supply of reliable and affordable power for our customers.

We're working to upgrade our generation facilities and add new ones to the mix. In 2012, we spent nearly $44 million on upgrades to Shand Power Station. We also signed an agreement for an independent power producer to build a new wind power facility near Chaplin, which will provide enough electricity to power about 70,000 homes when it is brought into service in 2016.

System renewal remains a priority, as many of our power lines are between 30 and 50 years old. We have a number of renewal and replacement projects coming that will help us prepare to meet growing demand, including:

- A new transmission line from Island Falls to Key Lake that will support economic growth in northern Saskatchewan
- Infrastructure replacement between Pasqua and Swift Current — some of our oldest infrastructure in the province
- Reinforcement of the Saskatoon area power system, with the addition of three transmission lines, two switching stations and one substation

New federal carbon dioxide (CO_2) emission regulations have eliminated a low-cost foundation of our current system, conventional coal-fired generation, as a future option. SaskPower led the way in championing balanced regulations that support Canada's goals for greenhouse gas emission reductions with the lowest possible impact on consumers.

Today, many eyes are on us as we continue with the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project. A rebuilt Boundary Dam Power Station Unit #3 is expected to be online in the fall of 2013, with full commercial operation of CO_2 capture in 2014. Based on this project, SaskPower was given the Canadian Electricity Association's Environmental Commitment Award at the 2012 Sustainable Electricity Awards.

In 2012, SaskPower reached an agreement for the purchase of CO_2 by Cenovus Energy from the carbon capture and storage facility. Cenovus will purchase the full volume, approximately one million tonnes per year, of the CO_2 captured at SaskPower's facility and use it for enhanced oil recovery at a project operated by Cenovus on behalf of its partners near Weyburn, Saskatchewan.

As leaders in this technology, we have also finalized a partnership with Hitachi to develop a carbon capture test facility at Shand Power Station, which will allow international developers to evaluate the performance of their systems in capturing CO_2 emissions and benefit from our expertise.

We are proud of SaskPower's achievements in 2012. It was a year filled with great challenges and great opportunities, and you, our partners, played an invaluable role in helping the company achieve its goals. We thank you for your support, and welcome your input as we move forward with reaching our vision of being a world-leading power company through innovation, performance and service.

Joel Teal
Chair, Board of Directors

Robert Watson
President and CEO

One company. One focus.

We set a record of 22,129 gigawatt hours for electricity supplied, while in early 2013 the province set a record of 73,902 megawatt hours for daily energy consumption and a record of 3,379 MW for peak load.

We marked a record expenditure of $226 million on customer connections.

We invested a record $981 million in Saskatchewan's electrical system.

We created a Clean Energy Group that is closely examining developments in electricity generation technologies.

We continued construction of one of the world's first and largest commercial scale integrated carbon capture and storage facilities at Boundary Dam Power Station while signing an agreement for the sale of carbon dioxide from the project.

We received the Canadian Electricity Association's Environmental Commitment Award and two employees accepted the Lignite Energy Council's Distinguished Service Award for research and development at the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project.

We announced development of a new commercial-scale carbon capture test facility at Shand Power Station.

We launched a new consortium to share carbon capture and storage knowledge with the world.

We completed an agreement for construction of a 177-megawatt project near Chaplin that will nearly double Saskatchewan's wind power capacity.

We signed an agreement with Meadow Lake Tribal Council Resource Development Inc. for the purchase of electricity from a new 36-megawatt biomass facility in northern Saskatchewan, while a pulp mill near Prince Albert began delivering biomass-produced electricity to our grid.

We invested nearly $150 million in power station upgrades, including the completion of a $44 million overhaul at Shand Power Station.

We continued the development of power lines to support the growth of the mining, oil and gas sectors, while also reinforcing the transmission system in the Saskatoon area.

We completed a pilot project in and around Hanley in advance of the installation of over 500,00 smart meters in Saskatchewan and partnered with other utilities to streamline the design and installation of services in new subdivisions.

We expanded our energy efficiency and conservation initiatives, which now include new commercial and industrial lighting programs.

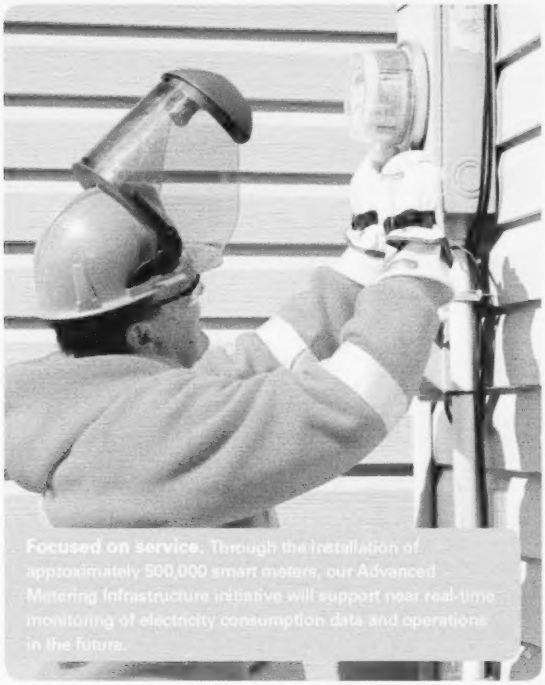
We advanced customer service modernization by enhancing web-based and internet services and introducing a credit card option for bill payment.

We developed a new Employee Volunteer Program and created a partnership with the Canadian Red Cross Society to enable employees to participate in provincial disaster relief efforts.

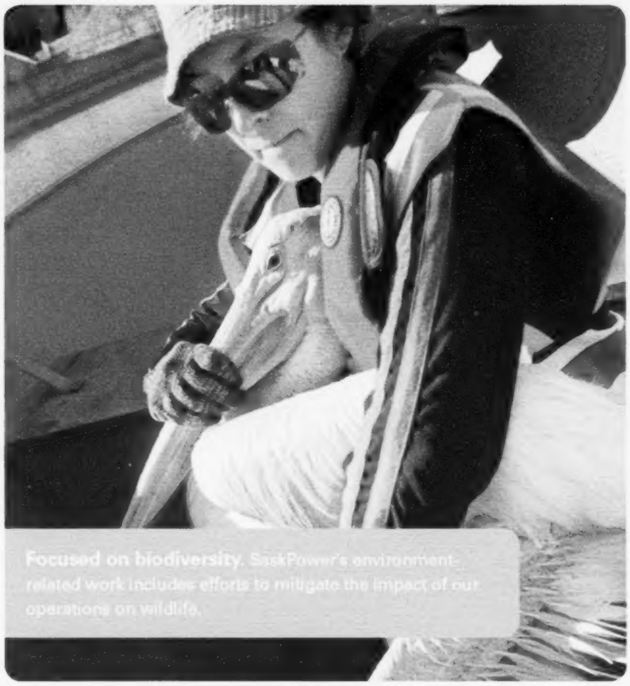
We announced the establishment of research chairs at the province's two universities to support clean energy development and power systems engineering.

We created a new program to provide job opportunities for northern youth and hosted an Indigenous Leadership Forum.

Focused on people. With a jump in retirements ahead, our company is strengthening succession planning, knowledge transfer, recruitment and retention.

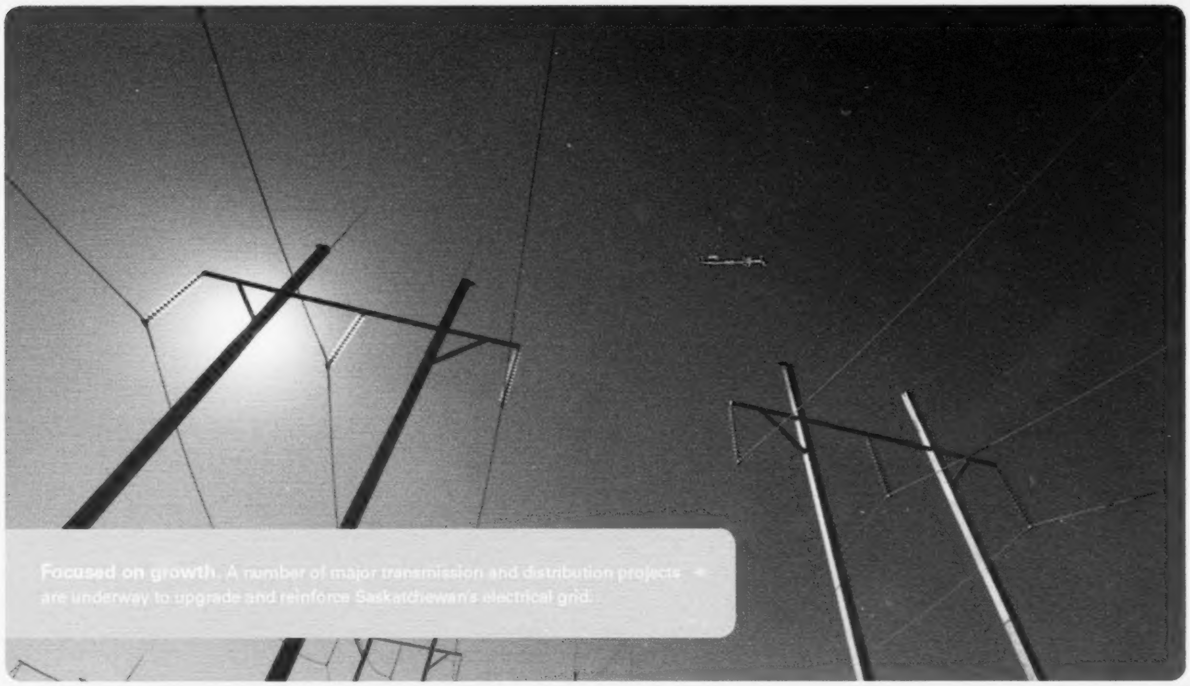


Focused on service. Through the installation of approximately 500,000 smart meters, our Advanced Metering Infrastructure initiative will support near real-time monitoring of electricity consumption data and operations in the future.

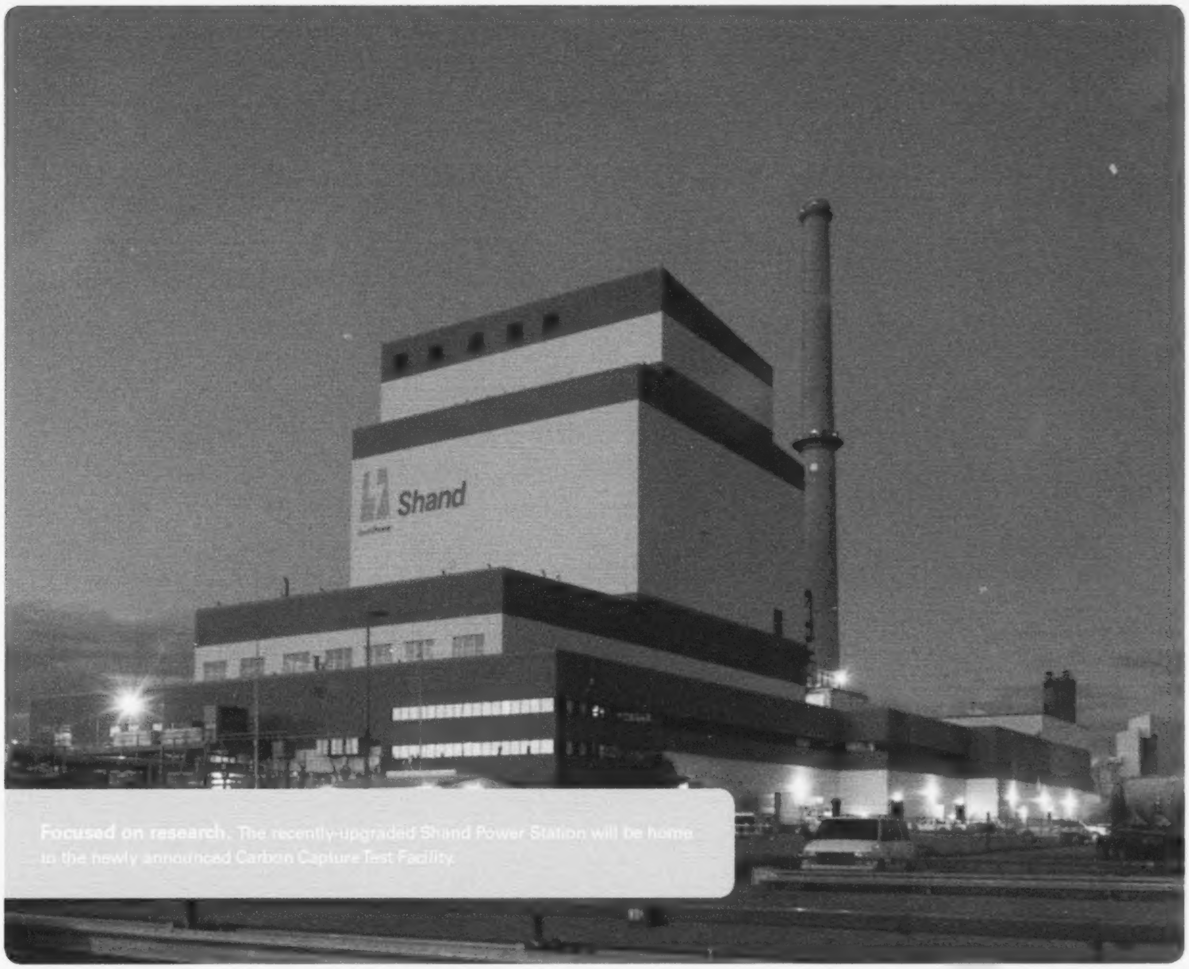


Focused on biodiversity. SaskPower's environment-related work includes efforts to mitigate the impact of our operations on wildlife.

Focused on a low-carbon future. Carbon capture technologies, like the one being installed at SaskPower's Boundary Dam Power Station, are the key to securing the future of coal as an electricity generation option.



Focused on growth. A number of major transmission and distribution projects are underway to upgrade and reinforce Saskatchewan's electrical grid.



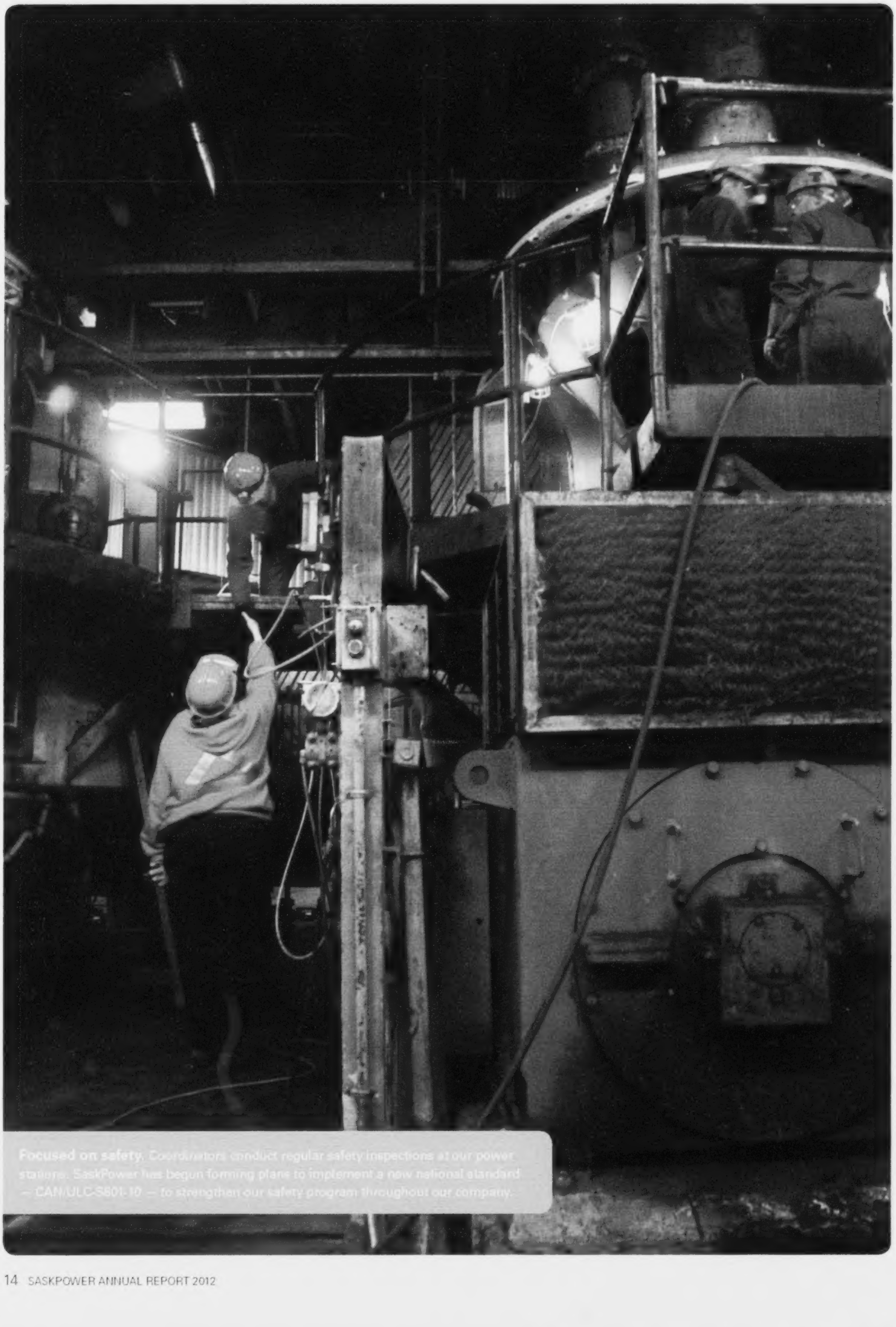
Focused on research. The recently-upgraded Shand Power Station will be home to the newly announced Carbon Capture Test Facility.

Focused on efficiency. A newly expanded facility at Boundary Dam Power Station has increased the storage capacity of fly ash, a by-product of burning coal. Each tonne of fly ash captured and sold that replaces cement prevents approximately one tonne of carbon dioxide from entering the atmosphere.

Focused on renewable energy. A 177-MW wind power facility near Chaplin will almost double SaskPower's wind capacity when it comes online in 2016.

NorSask
KILN DRIED
WESTERN SPF
SaskPower

Focused on partnerships. SaskPower has signed an agreement to purchase electricity from the Meadow Lake Tribal Council's new 36-MW biomass facility in northern Saskatchewan.



Focused on safety. Coordinators conduct regular safety inspections at our power stations. SaskPower has begun forming plans to implement a new national standard — CAN/ULC-S801-10 — to strengthen our safety program throughout our company.

SaskPo
Boundary

Focused on connecting. Our company has placed Human Resources Business Partners at locations around Saskatchewan, which is providing a bridge between head office and the field.

Focused on strategic sourcing. A new Supply Chain Management area is leading an initiative that will reduce costs by improving our procurement operating model and processes.

Management's discussion and analysis

March 6, 2013

The following is a discussion of the consolidated financial condition and results of the operations of Saskatchewan Power Corporation (SaskPower; the Corporation) for the year ended December 31, 2012. It should be read in conjunction with the audited financial statements and accompanying notes. The financial information discussed herein has been prepared in accordance with International Financial Reporting Standards (IFRS).

This management's discussion and analysis (MD&A) contains forward-looking statements based on the Corporation's estimates and assumptions concerning future results and events. Due to the risks and uncertainties inherent in any forecasted outlook, the actual results of the Corporation could differ materially from those anticipated. These risks and uncertainties include natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

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Our business

SaskPower is Saskatchewan's leading supplier of electricity. We work around the clock to provide electricity generation, transmission and distribution services to more than 490,000 customers. Our company has one of the largest service areas in Canada — a geographic area of approximately 652,000 square kilometres. We are committed to supporting economic growth and enhancing the quality of life in our province through the delivery of safe, reliable and affordable electricity.

SaskPower is a vertically integrated utility with three wholly owned subsidiaries — NorthPoint Energy Solutions, SaskPower Shand Greenhouse and SaskPower International. Our company has over 2,800 permanent full-time employees, with approximately one-half of the workforce comprised of members of the International Brotherhood of Electrical Workers (IBEW) Local 2067. An estimated quarter of workers belong to the Communications, Energy and Paperworkers (CEP) Local 649, with out-of-scope staff accounting for the balance.

SaskPower manages more than $6 billion in generation, transmission and distribution assets, relying on a generating fleet that uses a wide range of resources that include coal, hydro, natural gas and wind. This diversity provides a hedge against supply and price volatility, protecting customers from some of the risk inherent in any single resource.

Mandate

SaskPower traces its origins to the Saskatchewan Power Commission that was founded in 1929. In 1949, our company was incorporated as a provincial Crown corporation under the authority and mandate of *The Power Corporation Act* (the Act). The Act has had a number of modifications over its lifetime. However, SaskPower's mission — to deliver power in a safe, reliable and sustainable manner — has not fundamentally changed.

The Act grants SaskPower the exclusive franchise within the province of Saskatchewan (except for the City of Saskatoon and the City of Swift Current) to supply, transmit and distribute electricity, as well as to provide retail services to customers. The Reseller class of customer is restricted to two cities that retained their municipal franchise — the City of Swift Current and the City of Saskatoon.

SaskPower opened Saskatchewan's wholesale electricity market to competition through an open access transmission tariff (OATT) in 2001. It allows competitors to schedule access to our transmission system, enabling them to wheel power through Saskatchewan or sell to SaskPower's wholesale (Reseller) customers.

Our company's vision, mission and values flow from the Act and SaskPower's relationship with our parent company, Crown Investments Corporation (CIC) of Saskatchewan. We support the strategic direction provided by CIC. In turn, CIC is responsive to general government direction as articulated in a variety of ways, such as through the annual Speech from the Throne, or with formal policy statements.

Pursuant to the Act, the President and Chief Executive Officer of SaskPower reports to a Board of Directors appointed by the Lieutenant Governor in Council. Through the Chair, our company's Board of Directors is accountable to the Minister Responsible for Saskatchewan Power Corporation. The Minister functions as a link between SaskPower and provincial cabinet, as well as the Saskatchewan Legislative Assembly.

Our capability to deliver results

In order to provide Saskatchewan with a reliable, safe and affordable supply of electricity, SaskPower maintains an extensive province-wide system of generation, transmission and distribution assets. One of our primary objectives is to ensure sustainability by balancing economic, environmental and social requirements.

Supply

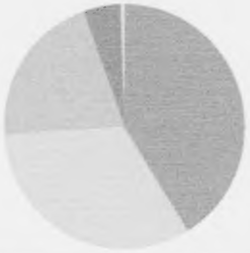
To maintain reliability of service, SaskPower operates with a generating capacity greater than the province's peak demand. Our company's available capacity is 4,104 megawatts (MW). This includes 3,513 MW available from our company's own assets — three coal-fired stations, seven hydroelectric stations, six natural gas stations and two wind facilities.

SaskPower also has a generating capacity of 591 MW available through long-term power purchase agreements (PPAs). Facilities producing the electricity are the gas-fired Spy Hill Generating Station near Esterhazy; the gas-fired Cory Cogeneration Station near Saskatoon; the gas-fired Meridian Cogeneration Station at Lloydminster; the SunBridge Wind Power Facility near Swift Current; the Red Lily Wind Power Facility near Moosomin; the biomass generator at Prince Albert Pulp Inc., and the NRGreen Kerrobert, Loreburn, Estlin and Alameda Heat Recovery Facilities.

The total available generating capacity is above our company's record system peak load of 3,379 MW, which was set in early 2013. SaskPower's excess generating capacity — the difference between total available generating capacity and load — provides our company with the ability to carry out annual maintenance programs without compromising reserve capacity requirements. SaskPower will also take advantage of excess capacity throughout the year to make export sales when we can earn an appropriate margin while operating within an acceptable level of risk.

Network

SaskPower's vast power line system provides the vital link between electricity generation sources and customers. Our transmission system is made up of 12,298 km of power lines and 51 high voltage switching stations located across Saskatchewan. Transmission lines are high voltage lines (over 25,000 volts) that transport large volumes of electricity from generating stations to load centres — cities, towns or large industrial or commercial customers.



2012 AVAILABLE GENERATING CAPACITY – 4,104 MW

Our distribution system consists of 138,959 km of power lines, 185 distribution substations and approximately 156,000 pole and pad-mounted transformers. Distribution lines are lower voltage lines (25,000 volts and under) that take electricity in smaller quantities to residential users and smaller commercial consumers.

SaskPower's infrastructure includes the Grid Control Centre (GCC), which directs the safe and reliable operation of the power system as well as the Supervisory Control and Data Acquisition (SCADA) system that provides remote operations and control of our facilities. The challenge of managing our transmission and distribution system is considerable because of the large geographic size of the province, locations of various sources of generation, and a dispersed and relatively small population.

SaskPower has interconnections at the Manitoba, Alberta and North Dakota borders. These provide our company with the capability to import or export electricity to meet higher internal demand or take advantage of export market opportunities. Under normal system conditions, the import capability is up to 250 MW from Manitoba, 75 MW from Alberta and 140 MW from North Dakota. The export capability is up to 50 MW to Manitoba, 153 MW to Alberta and 125 MW to North Dakota.

These interconnection capabilities vary with system conditions, including generation and load level. In compliance with the OATT, SaskPower is required to compete with other suppliers for access to these interconnections.

Outlook

As Saskatchewan's economy and population continue to grow, so does the need for electricity. A new record peak load was set in early 2013 for the third consecutive year. Given worldwide demand for potash, oil, natural gas and uranium, the economy is expected to grow faster in the next decade than it did in the past 15 years. During the next 10 years, system peak demand is expected to increase by approximately 2.9% per year, which is significantly higher than the 1.4% per year recorded in the previous 10-year period.

Meanwhile, our generation, transmission and distribution infrastructure is aging, and will require us to rebuild, replace, or renew it in its entirety over the next 40 years. New federal regulations have eliminated conventional coal-fired generation — SaskPower's primary baseload electricity source — as an option in the future.

Our company has a comprehensive action plan in place to meet Saskatchewan's electricity needs through 2017. In addition to providing opportunities for customer self-generation, we are continuing to promote demand side management (DSM) initiatives — energy efficiency, conservation and load management. We are also investing an estimated $10 billion over the next 10 years to renew and modernize the province's electricity system. This includes the addition of low- or non-emitting forms of generation such as biomass, coal with carbon capture and storage (CCS), natural gas and wind. Meanwhile, more than 20 new environmentally friendly power projects selected through SaskPower's Green Options (GO) Partners Program lottery will also be coming online.

In the last five years, SaskPower has added 463 MW of new power generation capacity. By 2033, it is expected that we will add an additional 1,400 MW. Looking decades ahead, we are aggressively preparing to secure Saskatchewan's long-term electricity needs.

For the first time in our company's history, we are examining possible long-term electricity supply mix scenarios looking 40 years into the future. These scenarios are helping us analyze the potential implications of various paths as we search for a way to find cleaner sources of electricity to replace our retiring baseload conventional coal-fired generation. The objective of all future planning is to ensure that SaskPower is able to continue to provide safe, reliable and sustainable power at the lowest possible cost.

Our enterprise-wide strategic context

At SaskPower, our strategic direction is articulated in our vision, mission, and values statements. Our planning, execution and performance measurement are built around three core strategies and nine key priorities.

SaskPower's vision reminds us of the ideals we are pursuing and what we want to achieve in years to come. Our mission tells us why our business exists and defines its unique purpose. Our values are the fundamental principles that guide and govern our behavior.

SaskPower's core strategies act as our company's areas of critical focus, while our performance drivers are our key priorities. Each core strategy and key priority plays a prominent role in SaskPower's Strategic and Business Plan, which is revised annually. Input is provided by our employees, executive and Board of Directors. The resulting course is closely aligned with the direction of our shareholder, CIC.

In 2012, our vision statement was modified to be more direct and better reflect the idea of what kind of company we want SaskPower to become. Additionally, our mission and values were simplified to more succinctly present our fundamental purpose and the manner in which we conduct our day-to-day business.

Our vision
A world-leading power company through innovation, performance and service.

Our mission
Safe, reliable, sustainable power.

Our values
Respectful, responsive, progressive.

Our core strategies and key priorities

- People
  - Customers
  - Employees
  - Stakeholders
- Financial
  - Financial management
  - Business renewal
  - Capital
- Stewardship
  - Infrastructure
  - Safety
  - Environment

Our performance measures and initiatives

SaskPower's business is driven by three core strategies and nine key priorities. They are the foundation of our Corporate Balanced Scorecard, which provides the framework for our day-to-day work, measurement of organizational performance, and execution of long-term planning.

During 2012, we took a number of steps to advance our vision of becoming a world-leading power company. In addition to fulfilling our mission of providing safe, reliable and sustainable power to customers, we made our company stronger by furthering plans to build a revitalized, strengthened and cleaner future power supply. The targets, results and special initiatives associated with each of SaskPower's core strategies and key priorities are contained within this section.

Core strategy: People

The success of our business is defined by the strength of our relationships with people — customers, employees and stakeholders at all levels. With a commitment to renew our approach to service, we are seeking to raise customer satisfaction to levels that will rival those of leading companies in any industry. We strive to be an employer of choice, with dedicated, engaged employees working to execute SaskPower's strategy. We welcome dialogue and create opportunities for stakeholders to provide input.

Our key priorities:

1. Customers
2. Employees
3. Stakeholders

Related corporate risks addressed by activities and initiatives in this area:

- Workforce management
- Stakeholder engagement
- Change management and culture
- Uncertain operating environment (economic, regulatory, political and environmental)

Key priority #1

CUSTOMERS

With a positive economic climate in Saskatchewan, demand for SaskPower's services continues to increase. In the last five years, our company's customer base has grown by more than 30,000. With load growth estimated at 2.9% per year over the next decade — compared to 1.4% historically — we are expecting to continue adding a significant number of new customers, particularly in the large commercial, oilfield and residential classes.

With continued growth, our company is being challenged to meet customer expectations in areas such as system reliability, new connection timelines, environmental performance, electricity pricing, and client communications. As a result, we are continuing to build upon recent initiatives in order to ensure we become an even more customer-centric company.

In 2012, we increased our efforts to deliver an enhanced customer experience by modernizing service options. In addition to now having access to our expanded hours of operation, customers have the ability to make bill payments by credit card. Customers are also experiencing improved online services and have a greater ability to interact with SaskPower through social media, while care centres have been refocused and enhanced to deliver customer-centric first-call resolution.

Enhanced responsiveness

SaskPower's Service Delivery Renewal (SDR) Program is a multi-year initiative that will improve service quality, productivity, efficiency and system reliability. One of SDR's key initiatives, Advanced Metering Infrastructure (AMI), will set the foundation for better service in the future with near real-time monitoring of electricity consumption data and operations through the installation of approximately 500,000 smart meters. AMI consists of the replacement of SaskPower's existing electric meters with an AMI meter and retrofitting SaskEnergy natural gas meters with a two-way communication module at a customer's home, farm or business.

To help assess the system prior to full provincial deployment, during the year a field test was successfully conducted in the community of Hanley and the surrounding area. Two additional field tests will be conducted in 2013, before full deployment begins in the fall. Smart meters are the base infrastructure that in future will enable billing based on actual usage and quicker service for connects and disconnects. The meters will also work with other systems in the future to pinpoint the locations of power outages, leading to faster service restoration.

As part our company's SDR Program, scheduling and dispatch functionality has been centralized at two provincial locations. This will improve the productivity and efficiency of field resources related to the operation and proactive maintenance of the electrical system, optimizing resources for prioritizing work, minimizing travel, and shortening the duration of power outages. This initiative will be expanded in 2013 to further improve performance related to meeting customer service requirement dates.

Performance — Customer Satisfaction Index (10 point scale)

	2011	2012	2013	2014	2015
Target	8.2	7.7	7.5	7.6	7.7
Actual	7.7	7.6			

The Customer Satisfaction Index is derived from our annual customer satisfaction survey. The measure is the mean score of customer ratings on a zero to 10 scale. In 2012, our company's performance was slightly below the target of 7.7. Response times to outages, reliability, new connection service times and communication are among the most prevalent concerns. In order to respond to those concerns, a number of activities are underway and include: AMI, social media outage communication, new service changes, and infrastructure renewal and maintenance programs.

Our company is working to increase the satisfaction across all customer classes — residential, farm, commercial, oilfield and major/key accounts. SaskPower's SDR Program has led to service gains from initiatives such as our new enhanced billing system and more timely and efficient dispatch processes through laptops in service trucks. AMI will contribute to better customer service by serving as a foundation for systems that will enable near real-time grid monitoring and improved outage management.

Performance — residential new connect delivery performance (%) (NEW)

	2011	2012	2013	2014	2015
Target	●	●	60.0	65.0	70.0
Actual	●	●			

● Denotes that actuals or targets were not available or reported for that time period.

The residential new connect delivery performance metric is recently developed. It looks at the percentage of new connect delivery jobs for residential customers with construction completed before the customer need date or 45 days, whichever is later. The target for 2013 is 60%. SaskPower's objective is to show steady and significant improvement.

Although significant gains have been made, SaskPower's ability to reach our company's new connection targets has been impacted by the tremendous increase in provincial economic development. In the past 10 years, new service applications have increased almost 84%. SaskPower experienced record spending on distribution new connects of $131 million in 2012, compared to $103 million in 2008.

SaskPower continues to review its new connect processes as we strive to keep up with the economic development in Saskatchewan. In an effort to more proactively support customers, a number of initiatives are underway. This includes shared utility trenching — a first for Saskatchewan utilities. SaskPower, SaskTel and SaskEnergy have implemented a new process for urban developers related to the design and installation of shallow underground utility distribution and services within new residential subdivisions.

Through the new model, developers are responsible for the design of utility services. The new process is now available for Regina and Saskatoon developers for urban residential subdivisions.

Meanwhile, progress has been made to improve SaskPower's new connect processes and make it easier for customers to do business with us. In fact, as we strengthen our focus on customer service, we are making improvements for customers in several areas. Our customer strategy will enhance the timeliness of service; ensure we are responsive to customers and have the answers to their questions; provide proactive outage communication; and solidify our company's role as an advocate for conservation and efficiency.

Targeting reliability

In 2012, unprecedented summer storms again impacted SaskPower's reliability. Extreme weather experienced across Saskatchewan caused higher than expected delays and outages, affecting both our company's System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI).

During the year, repairs related to storm damage required significant spending. SaskPower's ability to restore facilities in a safe and efficient manner has been enhanced by the implementation of a new Incident Command System (ICS). Ongoing development and training related to the ICS will continue in 2013, with a focus on improving outage response times.

Performance — Reliability System Average Interruption Duration Index (SAIDI)

	2011	2012	2013	2014	2015
Target	4.1	4.2	4.1	4.1	4.0
Actual	6.4	5.9			

The SAIDI allows us to track our performance in responding to outages. It is a measure of the average service interruption length in hours that a customer experiences in one year. The SAIDI is influenced by a number of factors, including adverse weather; equipment condition; line contacts; extent of outage; travel time to the trouble point; as well as line staff availability, familiarity with facilities and level of experience.

SaskPower's SAIDI measured 5.9 in 2012. While this is a greater average interruption length than the target, it is an improvement over 2011. This was due largely to the extensive storm damage to transmission poles and towers throughout June and the beginning of July, which resulted in a higher than expected length of outages. To improve our performance, our company focuses on a number of initiatives designed to reduce outages that are considered controllable, including: the Rural Rebuild Program, Wood Pole Replacement Program and Vegetation Management Program.

Performance — Reliability System Average Interruption Frequency Index (SAIFI)

	2011	2012	2013	2014	2015
Target	1.8	1.9	1.9	1.8	1.8
Actual	2.6	2.3			

The SAIFI represents the number of outages that a customer experiences in one year. Both controllable and uncontrollable interruptions are taken into account. Outages with controllable elements include infrastructure failures, tree contacts, scheduled outages or loss of supply. Uncontrollable factors include lightning and other adverse weather conditions.

In 2012, the SAIFI measured 2.3. This represents a greater number of outages than the target, however it is an improvement over 2011. As with our company's SAIDI, the severe storms of June and July were largely responsible for the increased number of unplanned outages.

Key priority #2

EMPLOYEES

Realizing our vision of becoming a world-leading power company depends upon the ability of our company to create an environment where our employees can thrive. As part of the Canada's Top 100 Employers project, in 2012 SaskPower received awards for being one of the Best Employers for New Canadians, one of the Top Employers for Young People and one of Canada's Best Diversity Employers.

Of our company's total workforce, 10% of permanent employees belong to one of SaskPower's affinity groups: Aboriginal employees; employees with disabilities; visible minorities; lesbian, gay, bisexual and transgender employees; youth; and women in under-represented positions. SaskPower has a Diversity Department and committee that consults with its affinity groups. Our company also has developed an Aboriginal recruitment strategy and shares job postings with 40 community-based organizations. We also host monthly diversity events and an annual Indigenous Leadership Forum that facilitates the discussion of challenges and opportunities associated with providing employees a sense of inclusion at SaskPower.

With a high number of retirements set for the next decade alongside a skilled labour shortage, we have implemented a comprehensive Workforce Plan that includes a succession strategy as well as efforts to address employee retention and engagement. While SaskPower's employee turnover rate of 7.5% for 2012 has more than doubled since 2009, it is still lower than the national average of 10.6%. In order to fill vacancies and positions required for expanded services, during the year our company managed a record number of over 200 external hires.

To ensure human resources services are being more effectively integrated throughout our company, SaskPower placed 11 new Human Resources Business Partners in the field in 2012. In addition, the Business Partners will play a major role in recruitment and succession planning.

SaskPower is in the midst of a corporate job evaluation that will take our company from more than 700 unique job descriptions down to approximately 35. A market study will also occur, with SaskPower's salaries compared to those paid for the same work at other companies. The project will allow streamlined administration and enable our company to stay competitive with the market while allowing future market comparisons to be completed more easily.

Work is underway to help employees better understand the SaskPower strategic direction and how the work they do contributes to achieving the company's goals. Information gathered from employees and the executive will be put into an illustrative learning map to visually present the company's forward path.

Performance — employee engagement score (six point scale)

	2011	2012	2013	2014	2015
Target	•	2-2.5	2-2.5	2-2.5	2-2.5
Actual	•	2.5			

• Denotes that actuals or targets were not available or reported for that time period

Our company wants to ensure it has engaged employees that create an environment conducive to the continuous improvement of productivity. Employees with a high level of engagement generally say positive things about their company, want to stay at their company, and strive to do their best work so their company succeeds.

SaskPower has committed to measuring and improving employee engagement. This includes the use of biannual employee engagement surveys and mini-surveys in between to keep track of engagement levels consistently and measure progress. The engagement score for 2012 was 2.5 on a six-point scale — on target for the year. The long-term goal for our company is a score less than 2.0, which would demonstrate that SaskPower's employees are highly engaged (a lower number on the scale represents a more engaged workforce).

Previous engagement surveys have highlighted improved communication with leaders and the consistent recognition of employees as areas requiring improvement. A new formal Corporate Recognition Program is expected to begin in 2013, while company-wide tours by the President and the SaskPower Leaders' Forum continued in 2012.

Performance — full-time equivalent (FTE) employees

	2011	2012	2013	2014	2015
Target	3,330	3,477	•	•	•
Actual	3,290	3,419			

• Measure will be retired beginning 2013.

Our company is committed to having an appropriately sized workforce in place to execute our strategy, while also remaining mindful of our efficiency objectives. SaskPower is also required to be in compliance with the direction of CIC and the Government of Saskatchewan in relation to public service growth.

The FTE employees measure gauges SaskPower's progress in remaining aligned with our Workforce Plan. A FTE position is defined as working 1,800 hours per year and includes permanent, part-time, temporary and overtime employee hours. SaskPower ended 2012 with 3,419 FTE employees, which was better than the target. This measure will be replace by the labour budget/revenue measure (below) in 2013.

Performance — labour budget/revenue (%) (NEW)

	2011	2012	2013	2014	2015
Target	•	•	13.9	11.8	11.5
Actual	•	•			

• Denotes that actuals or targets were not available or reported for that time period.

The labour budget/revenue metric is new and will measure salaries, wages and premium pay paid to SaskPower employees as a percentage of revenue. The target for 2013 is 13.9%. This new measure will replace the FTE employees measurement in 2013.

Key priority #3

STAKEHOLDERS

Dialogue with stakeholders — customers, communities, businesses, landowners, Aboriginal groups, municipalities, regulators and government agencies — is essential when we are beginning work to construct new infrastructure or undertake significant upgrades to existing facilities. SaskPower's consultation typically includes early contact with local officials; distribution of detailed project information; open house sessions; meetings with individuals and interest groups; media releases; advertisements; and direct correspondence and discussion.

In 2012, we engaged with stakeholders on approximately 30 transmission projects, including: Saskatoon area reinforcement; TransCanada Corporation Piapot-Grassy Creek; Peebles-Tantallon; K+S Legacy Mine service; Jansen area reinforcement; and Shaunavon area reinforcement. Stakeholders were also consulted on the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project near Estevan and potential sites for a combined cycle gas turbine project.

During these consultations, we conducted 68 presentations to rural municipal, city, town and village councils and held 23 public open house information sessions. As well, there were several other smaller transmission projects that involved communication and meetings with councils and landowners at various locations across the province. During the year, consultations were also ongoing with First Nations and Métis communities on the Island Falls to Key Lake, Key Lake to Millennium and Peebles to Tantallon transmission projects.

Aboriginal relations

For SaskPower, building a sustainable future depends on maintaining strong relationships with Saskatchewan's First Nations and Métis communities. As a result, our company continues to develop a comprehensive Aboriginal relations strategy that will aid in promoting clear and open communication between SaskPower and Aboriginal people, communities and companies.

Through an in-house team dedicated to Aboriginal relations, SaskPower has established several priorities that focus on developing mutually beneficial economic opportunities; supporting long-term corporate objectives and project implementation; cultivating broad relationships with First Nations and Métis governments; and instituting performance measurement through the Canadian Council for Aboriginal Business Progressive Aboriginal Relations Program.

These priorities are being supported by a number of key initiatives. Collaborative dialogue is continuing with the First Nations Power Authority (FNPA) of Saskatchewan, and in 2012 our company signed a Master Agreement. This relationship is critical in aligning First Nations' interest in developing power generation projects with SaskPower's need to establish new generation supply. Our company is continuing to work with the Black Lake First Nation toward the creation of the 42-MW Elizabeth Falls Hydroelectric Project in northern Saskatchewan. The facility's development is based on principles within our recently approved Aboriginal Investment Policy, which allows for joint ownership.

In 2012, SaskPower signed a PPA with the Meadow Lake Tribal Council for electricity produced at the Meadow Lake Bioenergy Centre. The biomass project will use wood byproducts from the NorSask Forest Products mill near Meadow Lake to generate up to 36 MW of renewable, low-emissions power. A PPA related to a wind storage demonstration project near Regina was also signed with the Cowessess First Nation.

Meanwhile, our company has approved the implementation of an Aboriginal Procurement Policy that will facilitate the participation of Aboriginal businesses in SaskPower's supply chain. In 2012, procurement from Aboriginal suppliers totaled over $18 million. Our company has also approved an Aboriginal Employment and Training Policy, which will advance Aboriginal participation in SaskPower's workforce.

SaskPower has also launched a program to provide term employment at the Island Falls Hydroelectric Station for four graduates of Sandy Bay's Hector Thiboutot Community School each year. Students will benefit from hands-on experience so they will become better qualified for permanent positions at the Island Falls facility in the future.

In 2012, SaskPower focused on the historical grievance the community of Sandy Bay has with the impact of the Island Falls Hydroelectric Station. Our company engaged an external consultant to help facilitate discussion, and during the year activities included meetings with elders, the mayor, council, the Hydro Impact Committee and Island Falls Power Station staff; attendance at community events; interviews; and a community workshop. Discussions have focused on identifying ways to heal relationships and develop next steps.

Our community

In order to further SaskPower's commitment to corporate social responsibility, our company supports registered charities and not-for-profit organizations throughout Saskatchewan. To enhance the communities in which we work and live, we fund and support hundreds of events, activities and initiatives — as well as select capital projects — that contribute to the quality of life we enjoy in our province.

During the year, our community involvement consisted of nearly $1.5 million of funding involving 159 partnerships supporting education, environment, culture, sport and charities. Highlights include environment-related sponsorships with the Nature Conservancy of Canada, Ducks Unlimited and the Native Plant Society of Saskatchewan to support research, preservation and education. As well, our more than 20-year relationship with the Saskatchewan Science Centre continued to assist in the presentation of a wide range of community educational experiences.

In 2012, our company officially announced research chair partnerships with the University of Regina and University of Saskatchewan to help meet our province's growing need for power with a skilled workforce and innovative technologies. The $3.5 million University of Regina funding will help advance research in CCS technology while the $3.5 million University of Saskatchewan funding will be directed toward power systems engineering.

Our company also sponsored eight Aboriginal students to complete an environmental training program at Building Environmental Aboriginal Human Resources (BEAHR), a division of EcoCanada. Students obtain enhanced knowledge of environmental monitoring, and are able to join Saskatchewan's community of environmental monitors with specific Indigenous cultural knowledge. SaskPower frequently uses environmental monitors when constructing power lines.

While directed sponsorships are vital to SaskPower, volunteerism is important to our employees. During the year, a survey indicated 79% of SaskPower employees already volunteer or would like to volunteer in their communities. Based on monthly draws, a new Employee Volunteer Program is providing employees with funding for their charitable interests based on the number of hours volunteered per year. Meanwhile, during the year employee contributions, along with our company's matching contribution, raised more than $365,000 for the United Way.

In 2012, SaskPower and the Canadian Red Cross Society signed an agreement that will see our company's employees trained and deployed during future provincial emergencies. Volunteer opportunities will also be made available to SaskPower employees who do not wish to take the full Disaster Management Training Program, but would like to volunteer in particular instances.

Performance — Corporate Reputation Index (10 point scale)

	2011	2012	2013	2014	2015
Target	6.7	7.0	7.3	7.6	7.9
Actual	7.1	7.2			

Because we aspire to be a company that has exemplary relationships with stakeholders, the way in which SaskPower is viewed is an important indication of our progress. The Corporate Reputation Index is measured on a 10-point scale. It provides a measure of our company's reputation and has been expanded to include other stakeholder groups.

In 2012, stakeholder surveys were completed and the resulting Corporate Reputation Index of 7.2 exceeded the target. This is partly due to favourable ratings in the areas of trust, transparency, commitment and satisfaction. Our company's goal is to steadily increase satisfaction ratings across all customer classes — residential, farm, commercial, oilfield and major/key accounts — and with key stakeholders.

Core strategy: Financial

SaskPower's aim is to continue providing competitive rates in the face of an unprecedented period of infrastructure renewal and growth. We recognize our role in supporting business and quality of life, and believe we have a responsibility to carefully and prudently manage the company's finances. Our company is committed to keeping growth in operating, maintenance and administrative (OM&A) costs less than the proportionate growth in revenue and assets.

Our key priorities

1. Financial management
2. Business renewal
3. Capital

Related corporate risks addressed by activities and initiatives in this area:

- Cost control and reduction
- Large projects
- Uncertain operating environment (economic, regulatory, political and environmental)

Key priority #1
FINANCIAL MANAGEMENT

While we continue our multi-year program to renew aging infrastructure and develop new facilities to meet increasing demand, SaskPower must also demonstrate our commitment to managing costs and increasing efficiencies to help offset the need for rate increases.

We are facing a number of economic challenges that may have an effect on our balance sheet, including: higher costs to maintain and repair aging equipment, with some plants now reaching 50-60 years of age; higher capital costs as new generation, transmission and distribution infrastructure is added; an increased debt ratio due to increased capital investment; increased costs related to the pursuit of clean energy; and potentially volatile fuel costs, especially for natural gas, which can significantly impact net income.

Performance — return on equity (%)

	2011	2012	2013	2014	2015
Target	6.7	7.6	6.4	8.5	8.5
Actual	13.2	7.9			

For SaskPower, a continued strong financial performance will play an important part in financing infrastructure renewal and growth. Return on equity is a measure of income before unrealized market value adjustments for the year expressed as a percentage of total equity.

In 2012, the return on equity of 7.9% was above the target but a decline from the prior year. The target reflects a rate of return common to other Canadian electrical utilities. The income results are explained in further detail in the financial results section of the MD&A.

Performance — per cent debt ratio (%)

	2011	2012	2013	2014	2015
Target	68.8	63.8	71.3	71.2	70.1
Actual	63.0	67.4			

Per cent debt ratio provides a measure of debt expressed as a percentage of the total corporate financing structure. In 2012, SaskPower's per cent debt ratio was 67.4%. The result was above the target, due to a reduction in our company's equity caused by $120 million in unplanned dividends paid to CIC and $33 million of actuarial losses related to SaskPower's defined benefit pension plan. The per cent debt ratio is discussed in further detail in the financial results section of the MD&A.

The long-term target has been set as a range between 60% and 75%. This range reflects the flexibility that SaskPower requires to increase its debt levels in order to finance our capital program. As we modernize and expand our infrastructure over the next decade, SaskPower will rely on a mix of internal spending, borrowing, and private sector partnerships to fund revitalization. However, even with a consistently strong return on equity, our company's debt levels are expected to increase substantially.

Performance — interest coverage ratio

	2011	2012	2013	2014	2015
Target	1.5	1.7	•	•	•
Actual	2.0	1.5			

• Measure will be retired beginning 2013.

The interest coverage ratio provides a snapshot of our company's ability to pay the interest charges on our debt. The coverage ratio indicates how many times the interest could be paid from available earnings, providing a sense of the safety margin which our company has for paying finance charges for any period.

SaskPower's interest coverage ratio for 2012 was 1.5 — below the target of 1.7 for the year and lower than the prior year. A company that sustains earnings well above its interest requirements is in a good position to weather possible financial downturns. Going forward, our company will be focusing on the return on equity and per cent debt ratio metrics as our primary measures of financial management at SaskPower.

Key priority #2

BUSINESS RENEWAL

With our company in the process of making an estimated $10 billion investment in the next 10 years to accommodate electricity infrastructure renewal and growth, additional revenue will be required. SaskPower's Business Renewal Program is evaluating opportunities to increase efficiency and effectiveness so that costs can be eliminated, controlled or avoided. We are reviewing all expense areas, including those associated with OM&A; fuel and purchased power; and capital spending.

In addition to the transformative projects undertaken in the SDR area, efficiency gains are being made in other areas. Policy has been changed to allow the use of up to 15% short-term debt, which is currently cheaper than long-term debt. Along with adjusting our capital structure, this strategy is expected to lead to significant savings.

Meanwhile, SaskPower is enhancing and expanding an initiative to reduce power plant outage duration and frequency. OM&A and fuel costs are being lowered by extending the annual outage cycle for generating stations from 12 to 24 months, and by reducing maintenance outages by seven days.

SaskPower is also reducing information technology costs by implementing a sourcing strategy, enhancing project management, reducing the number of printers, and outsourcing our help desk, as well as introducing internet protocol (IP) telephony and automated test tools for software upgrades.

Performance — operating, maintenance and administration (OM&A)/revenue (%)

	2011	2012	2013	2014	2015
Target	31.2	29.9	29.5	26.1	25.4
Actual	30.7	31.8			

Executing the responsible use of resources is crucial to the financial health of SaskPower. The OM&A as a percent of revenue measure illustrates SaskPower's operational efficiency. OM&A costs include those expenses associated with the daily operation and maintenance of our business. The lower the ratio, the more efficient our company's operations. The OM&A figure used in the calculation excludes DSM costs.

In 2012, SaskPower's OM&A as a percentage of revenue was 31.8%, which was higher than the target set for the year and an increase relative to the prior year. The drivers for the increase in OM&A are discussed in further detail in the financial results section of the MD&A.

Our company's objective is to show steady improvements in future years, with a long-term target of 20%. This will be achieved through savings and productivity gains from initiatives such as SDR and the Business Renewal Program.

Performance — Employee Productivity Indicator (GWh/employee)

	2011	2012	2013	2014	2015
Target	7.5	8.5	•	•	•
Actual	8.0	7.8			

• Measure will be retired beginning 2013.

Optimizing the use of our workforce is an important element of our overall renewal strategy. The Employee Productivity Indicator is defined as the total volume of SaskPower generation relative to the total number of full-time permanent employees. Total SaskPower generation includes electricity obtained from imports and through PPAs.

In 2012, the Employee Productivity Indicator was 7.8 gigawatt hours (GWh)/employee, below the target of 8.5 and below the prior year. The decline in results was due to a 518 GWh or 2% increase in total generation compared to an increase of 129 FTE employees during the year.

Performance — thermal utility rates (%)

	2011	2012	2013	2014	2015
Target	≤110.0	≤110.0	≤100.0	≤100.0	≤100.0
Actual	81.9	77.9			

In our province, the price of electricity has a direct impact on Saskatchewan's competitive position as well as quality of life for residents. Our company's goal is to ensure that SaskPower's system average rates are less than or equal to 100% of the system average rates for customers served by utilities dependent on thermal generation.

SaskPower's 2012 result of 77.9% was better than the target and demonstrates that our company remains competitive with our thermal industry peers in Canada. Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel (SRRP) with final approval by cabinet.

In July 2012, SaskPower submitted a rate application to the SRRP requesting a system-wide average rate increase of 5% effective January 1, 2013. In November 2012, the SRRP completed its review of SaskPower's application and recommended that cabinet approve a 5% system-wide average rate increase. In December 2012, cabinet accepted the SRRP's recommendation and approved the rate increase effective January 1, 2013.

Properties

Properties are also an area of focus for improved efficiency. In the first year of implementation, the adoption of the Office Space Utilization Policy realized lease cost savings. Also in 2012, both a Provincial Properties Strategy and Regina Properties Strategy were developed and provide a 10-year planning horizon. This work will have significant impact on our ability to plan future properties-related OM&A and capital projects. A major retrofit of the Saskatoon Service Centre was also completed, amalgamating all of SaskPower's Saskatoon operations into one location.

Strategic procurement

During the year, SaskPower contributed nearly $2 billion to the provincial economy. This occurred through the procurement of goods and services from Saskatchewan suppliers; payment of salaries, wages and benefits to employees; purchase of coal and natural gas; and acquisition of electricity from independent power producers (IPPs). Our company's contributions also included grants-in-lieu of taxes payable to local governments, as well as coal royalties, water rentals and provincial corporate capital tax payable directly to the Government of Saskatchewan.

To be more efficient and responsive, SaskPower has created a Supply Chain Management area and is reshaping procurement practices. In the past, SaskPower used a large number of suppliers. Low dollar value transactions and the use of a multitude of suppliers lead to extra administrative work and hinder relationships with major suppliers. Our new procurement initiative is focused on reducing costs through increased strategic sourcing of goods and services and improving the procurement operating model and processes.

In 2012, SaskPower began accepting electronic bids from suppliers and a new Aboriginal Procurement Policy was approved. The New West Partnership Trade Agreement was also implemented, and required changes to procurement practices and the education of SaskPower staff on agreement terms, conditions and exceptions.

Performance — competitive versus single source procurement (%) (NEW)

	2011	2012	2013	2014	2015
Target	•	•	65.0	70.0	75.0
Actual	•	•			

• Denotes that actuals or targets were not available or reported for that time period.

The competitive versus single source procurement metric demonstrates the extent to which SaskPower uses competitive procurement (multiple bids solicited) as opposed to single source procurement. This new measurement — based on the total procurement dollar value during the year — aims to promote the reduction of single source procurement in the future. The target for 2013 is 65% competitive procurement. Procurement from vendors that are the only available source of a particular product or service are excluded from this measure.

Key priority #3

CAPITAL

SaskPower's multi-billion dollar infrastructure renewal and growth capital program will test our planning and management capacities. Our company's projected level of investment in the coming decades is truly a once-in-a-generation challenge.

Because major construction projects take place over a number of years and involve numerous variables, it is often difficult to accurately plan and forecast our capital needs. However, it is our company's goal to be as accurate as possible and improvements to our capital budgeting processes are underway. A new position, Chief Commercial Officer, has been established to oversee key capital initiatives with an emphasis on early planning and comprehensive assessment.

These large-scale capital projects include both new generation and the renewal of existing generation and transmission and distribution assets. Key projects in 2013 include continued work on the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project, AMI and ongoing transmission system upgrades.

Core strategy: Stewardship

Successfully meeting our mission to provide safe, reliable and sustainable power for our customers means securing the present and future supply of electricity while addressing environmental responsibilities. As we develop new capacity, our company is also maintaining and upgrading existing generation, transmission and distribution infrastructure to ensure reliability. Above everything else, in all of our activities the safety of our employees and the public is vital.

Our key priorities:

1. Infrastructure
2. Safety
3. Environment

Related corporate risks addressed by activities and initiatives in this area:

- Reliability and infrastructure adequacy (including electricity supply planning and emergency preparedness)
- Security (cyber and physical, including information management)
- Fuel supply
- Uncertain operating environment (economic, regulatory, political and environmental)
- Safety

Key priority #1

INFRASTRUCTURE

With our province's economy and population growing, so is the need for electricity. In 2012, SaskPower set a new all-time record for electricity supplied in a year — 22,129 gigawatt hours (GWh). In early 2013, a new mark of 73,902 megawatt hours (MWh) was set for single day energy consumption and a record peak load of 3,379 MW was also achieved.

In addition to a rapidly increasing demand for electricity in our province, our company faces two primary challenges as we prepare to meet future electricity needs while maintaining competitive rates:

- Aging infrastructure — over the next 40 years, we'll not only need to replace, refurbish or expand most of our generation fleet, but also our transmission and distribution system.
- New federal carbon dioxide (CO_2) emission regulations that have eliminated conventional coal-fired power generation — the long-time foundation of our system — as a future supply option.

Our company has a comprehensive action plan in place to meet Saskatchewan's electricity needs through 2017. In addition to providing opportunities for customer self-generation, we are offering a variety of DSM initiatives that focus on energy efficiency, conservation and load management.

Our immediate plans also include a renewal and expansion of the province's electricity system. Either in partnership with IPPs or through internal projects, we are adding low- or non-emitting forms of generation such as biomass, coal with CCS, natural gas and wind. Meanwhile, more than 20 new environmentally friendly power projects selected through SaskPower's GO Partners Program lottery will also be coming online.

Looking decades ahead, we are aggressively preparing to secure Saskatchewan's long-term electricity needs by examining a variety of long-term scenarios so that we can determine and analyze the optimum supply mix. When it comes to future supply, we are evaluating low-carbon options that include: biomass, coal with CCS retrofits, cogeneration, geothermal, hydro, imports, natural gas, nuclear power from small modular reactors, solar and wind.

SaskPower has established a Clean Energy Group to lead the technical evaluation of many of these evolving clean electricity generation technologies. The work completed by this group will feed into future electricity supply plans that contain an analysis of benefits, risks, costs and emissions profiles.

Performance — net new capacity additions (MW)

	2011	2012	2013	2014	2015
Target	113	0	•	•	•
Actual	112	0			

• Measure will be retired beginning 2013.

While continuing to renew existing infrastructure, our company must also add new capacity — by building new plants or entering into PPAs — to keep pace with growth in demand for electricity. The net new capacity additions measure illustrates the increase in the net amount of generation capacity.

As planned, SaskPower did not add any major new capacity in 2012. However, our company added 10 MW of supply through a PPA with Prince Albert Pulp Inc. for electricity from its biomass facility. These small PPAs are not included in our scorecard measure. SaskPower also signed an agreement with Windlectric Inc. to build a 177-MW wind power facility near Chaplin, which will provide enough electricity to power about 70,000 homes. When the project is brought into service in 2016, wind power will make up about 8% of SaskPower's available generating capacity.

During the year, we also signed agreements for the purchase of electricity from the Meadow Lake Tribal Council's new 36-MW biomass facility in northern Saskatchewan and Cowessess First Nations' wind storage demonstration project near Regina.

The new 261-MW gas-fired North Battleford Energy Centre will come online in 2013, while in the next five years capacity additions will include an expansion at the natural gas-fired Queen Elizabeth Power Station and the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project.

Performance — planned versus emergency maintenance (%) (NEW)

	2011	2012	2013	2014	2015
Target	•	•	46.0	49.0	51.0
Actual	•	•			

• Denotes that actuals or targets were not available or reported for that time period.

The planned versus emergency maintenance metric is a new measure which calculates the percentage of total dollars spent on transmission and distribution emergency maintenance as compared to planned maintenance. The target for 2013 is 46%.

Performance — Renewing Infrastructure Index (%) (OLD)

	2011	2012	2013	2014	2015
Target	86.2	86.7	•	•	•
Actual	84.4	83.2			

• Measure will be retired beginning 2013.

SaskPower's asset maintenance strategy is critical to security and reliability. The current Renewing Infrastructure Index is a measure of the equipment availability of our generation and transmission assets. It demonstrates the effectiveness of our company's overall asset management strategy.

In 2012, SaskPower's Renewing Infrastructure Index was 83.2%, slightly below the target and a decline from the prior year. The reduced availability was due to a hydrogen leak at Boundary Dam Power Station Unit #6, as well as start-up challenges following an overhaul at the Shand Power Station.

During the year, SaskPower invested nearly $150 million to improve the efficiency and reliability of generation facilities. This included $29 million to refurbish facilities at Island Falls Hydroelectric Station, E.B. Campbell Hydroelectric Station and Coteau Creek Hydroelectric Station; $26 million for the repowering of the Queen Elizabeth Power Station; and $44 million worth of upgrades at the Shand Power Station.

Performance — Renewing Infrastructure Index (NEW)

	2011	2012	2013	2014	2015
Target	•	•	63.0	64.9	66.8
Actual	•	•			

• Denotes that actuals or targets were not available or reported for that time period.

Our new Renewing Infrastructure Index is a blend of our measure of the equipment availability of generation assets coupled with the number of preventable transmission and distribution outages per 1,000 km of lines. Preventable outages take place as a result of system failure, faulty equipment and overload, as well as contacts with trees, birds and other animals.

The Renewing Infrastructure Index target for 2013 is 63.

A growing and revitalized grid

Our company's vast transmission and distribution network provides the vital link between electricity generation sources and customers. Like much of SaskPower's supply capacity, it too requires considerable replacement, upgrades and expansion to meet growing demand.

We have a number of major transmission projects underway to upgrade and re-enforce the electrical grid in our province and improve service to industrial customers. In northern Saskatchewan, the new $380-million I1K Transmission Line is needed to improve reliability and accommodate increased electricity demand primarily in northern communities and industrial sites.

In preparation for this new 300-kilometre line from Island Falls Hydroelectric Station to the planned Key Lake Switching Station, clearing work on a right-of-way took place throughout 2012. When this line comes into service, transmission capability to serve the north will increase to 125 MW from the current 85 MW.

During 2012, SaskPower also worked to upgrade voltage services for a number of potash facilities: Agrium's Vanscoy mine; Mosaic's Colonsay and Esterhazy K2 mines; and PotashCorp's Rocanville mine. These services allow for the expansion of production capacity at each site. In addition, SaskPower provided services to new sites for Mosaic's Esterhazy K3 and Far Field operations, as well as PotashCorp's Scissors Creek expansion.

Meanwhile, our company is planning to reinforce our electricity system in the Saskatoon area. Work will include a 230-kilovolt (kV) line between the proposed Aberdeen Switching Station and existing Wolverine Switching Station; a 230-kV line between the proposed Aberdeen Switching Station and proposed Martensville Switching Station; a 138-kV line between the proposed Martensville Switching Station and existing QE18 Transmission Line; and construction of two new switching stations. The reinforcement will allow SaskPower to accommodate the increased need for electricity in the City of Saskatoon and surrounding areas, and meet the requirements for new potash mining operations east of Saskatoon.

In addition to planning a new 138-kV overhead transmission line to provide upgraded service to the Shaunavon area, our company is also planning to provide electricity to the new K+S Legacy Mine. The facility is under construction 30 km northeast of Moose Jaw.

SaskPower is also proposing a new 230-kV transmission line approximately 150 km east of Saskatoon to provide permanent service to BHP Billiton's new Jansen Potash Project.

Our investment in system maintenance also includes the ongoing Wood Pole Replacement Program. Of the estimated 1.25 million treated wood poles in service, approximately 70,000 poles were tested in 2012 for decay, carpenter ant infestation and mechanical damage. Under normal conditions, the life span of a wood power pole is between 40 and 45 years. Through our company's maintenance program, the life span can extend to more than 70 years.

Key priority #2

SAFETY

At our company, there is nothing more important than the safety and well-being of employees, contractors and the public. High voltage equipment has inherent risk, as do confined spaces, machinery, heights, high temperature environments, and other potentially dangerous circumstances.

In order to minimize workplace health and safety risks, our company has an Occupational Health and Safety Assessment Series (OHSAS) 18001-registered Safety Management System (SMS). Internal and external SMS audits are held each year to monitor for compliance and ensure it is being used and maintained effectively.

In 2012, SaskPower began planning for the implementation of a national safety standard that will assist in further reducing our risk of electrical incidents — CAN/ULC-S801-10. It provides guidance on safe work designs, equipment, materials and procedures. When complete, the gap analysis and implementation of CAN/ULC-S801-10 will represent the largest safety initiative ever undertaken by SaskPower.

Externally, SaskPower has established a comprehensive public safety program that is largely driven by hazards identified as high risk to the public. Farming and construction industries are areas of top priority, as well as contractors working on or near our facilities. We have partnered with the Heavy Construction Safety Association of Saskatchewan to help enhance messages to construction workers and contractors.

SaskPower continues to undertake additional educational initiatives to inform the general public about electrical safety.

Performance — Safety Index

	2011	2012	2013	2014	2015
Target	2.3	2.0	1.5	1.3	1.1
Actual	2.0	1.6			

In 2012, our company had a Safety Index of 1.6, which was better than the target of 2.0 and an improvement over the prior year. A lower score indicates better performance. The Safety Index is comprised of leading and lagging indicators. Leading indicators measure proactive activities that identify hazards and also assess, eliminate, minimize and control risks. Lagging indicators measure the occurrence of safety incidents, including lost-time injury frequency and lost-time injury severity.

In addition to a SMS in compliance with the OHSAS 18001 Standard, SaskPower also has comprehensive safety policies, standards, training and education initiatives that have resulted in steady improvement. During the year, SaskPower marked 500,000 person hours without a lost time injury at the construction site of the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project. Our company also reached 400,000 person hours without a lost time injury during brush clearing of the I2P Transmission Line route in northern Saskatchewan.

Key priority #3

ENVIRONMENT

SaskPower uses an International Organization for Standardization (ISO) certified Environmental Management System (EMS) to manage and improve our environmental performance. Our company's EMS provides employees and contractors with a structure designed to help us identify, monitor and manage the impact of our business on the environment while encouraging continuous improvement. ISO 14001 registrations are maintained through annual independent EMS audits conducted at SaskPower facilities across the province. Qualified SaskPower personnel also conduct yearly internal EMS audits.

In 2012, a Corporate Environmental and Regulatory Management Strategy was developed that will improve SaskPower's ability to consistently and strategically address regulatory risk. The strategy will deliver on this goal by focusing on a number of objectives:

- Collecting high quality information on our environmental issues
- Setting goals and objectives on key environmental issues
- Achieving and, where appropriate, exceeding environmental compliance objectives
- Working with regulators to advance responsible environmental management and regulation
- Disclosing our goals and progress to stakeholders and inviting feedback
- Benchmarking ourselves against leading environmental and regulatory practices

In 2012, SaskPower worked closely with industry and the Government of Saskatchewan Ministry of Environment on a response to the draft National Recovery Strategy for Woodland Caribou. Woodland Caribou are currently designated as a threatened species under the federal *Species at Risk Act*.

As proposed, the National Recovery Strategy had the potential to halt development of SaskPower generation and transmission projects in the North, threatening further economic development. SaskPower prepared a response to the draft strategy outlining concerns consistent with other stakeholders, such as the mining industry and provincial government. It led to an amendment allowing time for the collection of additional scientific data to enable the identification of critical habitat and an appropriate level of protection. SaskPower is contributing to that research effort and continues to be an active participant in the current provincial recovery team for Saskatchewan caribou populations.

During the year, SaskPower also participated in the development of the first chapters of the Saskatchewan Environmental Code. This new regulatory tool is part of the provincial Ministry of Environment's new results-based regulatory reform initiative.

In 2012, the Ministry of Environment released the first set of 19 Saskatchewan Environmental Code chapters for public review. Issues of particular interest to SaskPower are rules for the identification and reporting of greenhouse gas (GHG) emissions levels; development and implementation of environmental protection plans; qualified persons; and standards for air, water, hazardous substances and wastes.

Pursuing a low carbon future

Climate change represents the single most influential factor associated with the future of electricity generation in Saskatchewan. GHGs — primarily CO_2 from coal-fired power stations — are facing new federal environmental regulations that effectively eliminate conventional coal-fired generation as a future power supply option.

On July 1, 2015, the new federal performance standard begins taking effect on new coal-fired units and units that have reached the end of their useful life. All new units are subject to the regulations; once an existing unit reaches the end of its useful life — approximately 50 years of operation — it must meet the new performance standard or shut down. Units that were commissioned before 1975 will reach their end-of-life after 50 years of operation or at the end of 2019, whichever comes earlier. Units commissioned in or after 1975 but before 1986 will reach their end-of-life after 50 years of operation or at the end of 2029, whichever comes earlier. The regulations allow for some timing flexibility for units with plans in place for conversion to carbon capture.

Ongoing consultations between thermal utilities and the federal government have led to the possible consideration of equivalency agreements with provinces. This means that SaskPower may be able to continue operating under provincial regulation, as long as equivalent outcomes are achieved. This will enable us to maximize the potential of our existing generation fleet while still working toward the GHG reduction targets set by Environment Canada.

To manage expected air emissions regulations, particularly those associated with GHG emissions, SaskPower is pursuing lower emitting generating options. SaskPower's Boundary Dam Integrated Carbon Capture and Storage Demonstration Project is one of the world's first and largest commercial-scale CCS facilities. It is converting coal-fired Unit #3 at Boundary Dam Power Station into a reliable, long-term producer of 110 MW of clean baseload electricity.

The $1.24-billion project will reduce CO_2 emissions by approximately 90%, with the post-combustion capture of one million tonnes per year. This CO_2 will be primarily used in enhanced oil recovery (EOR) or placed in safe permanent storage in a deep saline formation through the Petroleum Technology Research Centre's Aquistore Project. In 2012, SaskPower reached an agreement with Cenovus Energy for the purchase of CO_2 for EOR at a project operated by Cenovus on behalf of its partners near Weyburn, Saskatchewan. Cenovus expects to be ready to accept the CO_2 when the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project goes into commercial operation in 2014.

In collaboration with Hitachi, SaskPower is also leading the development of a new Carbon Capture Test Facility to validate advanced carbon capture technologies. Adjacent to Shand Power Station, the facility will offer a neutral platform for international vendors to verify and improve post-combustion technologies in a commercial setting.

Dozens of pilot projects worldwide are testing post-combustion carbon capture. Often these are smaller-scale facilities producing results that tend to be more qualitative than quantitative. SaskPower's Carbon Capture Test Facility is unique, as it has been sized to manage measurement uncertainty, and is the only facility emerging from a full-scale commercial carbon capture project. Along with the physical facility, SaskPower is building the technical team to deliver world-class testing and analytical results.

In 2012, our company received an Environmental Commitment Award from the Canadian Electricity Association (CEA) as a result of work on the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project. The CEA honour recognizes commitment to sustainable development practices and cutting-edge innovation within the electricity sector. During the year, the Lignite Energy Council also recognized two SaskPower employees with the Distinguished Service Award for CCS associated research and development.

As part of our CCS initiatives, SaskPower is spearheading development of a knowledge consortium. It will enable our company to share CCS knowledge with companies, academic institutions and governments around the world.

Performance — fossil fuel CO_2 emissions intensity (tonnes CO_2e/MWh)

	2011	2012	2013	2014	2015
Target	0.85	0.83	•	•	•
Actual	0.93	0.84			

• Measure will be retired beginning 2013

A requirement for significant reductions in SaskPower's carbon footprint is imminent. The fossil fuel CO_2 emissions intensity indicator measures the amount of carbon dioxide equivalent (CO_2e) emissions from all SaskPower-owned coal- and gas-fired generation and CO_2e emissions from IPPs.

In 2012, the fossil fuel emissions intensity was 0.84 tonnes of CO_2e/megawatt hour (MWh), slightly higher than the target. However, the result was below the prior year as SaskPower used more gas-fired generation than anticipated, which has a lower CO_2e intensity relative to coal.

Efficiency, conservation and load management

Our company sees DSM — energy efficiency, conservation and load management — as playing an important role in securing Saskatchewan's electricity supply. By helping customers manage the amount or timing of electricity use, we can eliminate, defer or reduce the need for new generation and related power line infrastructure, while realizing the associated environmental and economic benefits. Meanwhile, customers are able to experience cost savings.

SaskPower is targeting 100 MW of savings from 2009 to 2017 through a portfolio of energy efficiency and conservation programs. Education, financial incentives and energy savings methods are key components of our DSM strategy. It is estimated that 10% to 15% of DSM-related energy savings can be expected from the industrial market, 50% to 60% from the commercial market, 30% to 35% from the residential market and up to 10% from customer self-generation with renewables.

During the year, our company expanded energy efficiency programming to help large commercial and industrial customers reduce electricity use and upgrade lighting. Delivered in partnership with an environment and energy management consulting firm, the Industrial Energy Optimization Program offers the technical assistance of a dedicated energy support team to industrial customers in order to identify energy-saving opportunities; provide financial incentives that help advance the adoption of energy efficient practices; and support the development and implementation of energy-saving capital projects.

Meanwhile, the expanded Commercial Lighting Incentive Program gives the province's 30,000 businesses access to more than 30 choices of premium energy efficient lighting. Businesses can start saving on their lighting bills as soon as their electrical contractor purchases products through participating lighting distributors.

Our company also continues to deliver an energy management service that provides energy audits and facility upgrades to help commercial customers reduce energy costs — the Energy Performance Contracting (EPC) Program. In 2012, we signed three new contracts: $1.5 million with the Heartland Health Region; $3.5 million with Prairie North Health Region; and $475,000 with Casino Regina.

Together, these projects will provide energy efficient upgrades to 38 health care facilities and the main buildings at Casino Regina. When all upgrades are complete, these projects will combine for savings of about $485,000 in utility costs each year. In addition, SaskPower has initiated an internal EPC project. At a cost of $2 million, it will yield savings of approximately $125,000 annually.

The EPC Program has been serving SaskPower's commercial customers for over a decade and has completed projects at 145 facilities across the province, including schools, commercial buildings, government and health facilities, and SaskPower's own buildings. To date, the $66 million in projects have been initiated and have realized combined annual customer utility savings of more than $4 million and 27 million kilowatt hours of electricity.

Performance — Demand Side Management (DSM) – accumulated peak savings (MW)

	2011	2012	2013	2014	2015
Target	38	46	63	72	81
Actual	38	56			

DSM is continuing to play a larger role in SaskPower's operations. The DSM-accumulated peak savings indicator measures the progress being made in delivering new DSM programs. It records demand reduction in megawatts. The accumulated demand reduction will be achieved through energy efficiency, demand response, customer self generation, and system improvement programs that are designed to achieve energy and demand savings.

The total accumulated demand savings in 2012 was 56 MW, above target for the year. Program savings are calculated using an appropriate end-use load factor and the amount of energy savings estimated at the customer site. DSM remains on track to achieve 100 MW of savings from 2009 to 2017.

In 2012, SaskPower continued to deliver a variety of programs aimed at homeowners that lessen the use of inefficient products, such as incandescent lighting and old appliances. In addition to introducing the Industrial Energy Optimization Program, other DSM initiatives which we offered or financially supported included the: Energy Performance Contracting Service, which assists commercial and institutional customers in reducing energy-related operating costs through efficiency upgrades; Net Metering Program; Energy Efficiency for New Homes Rebate Program; Energy Star® Program; Geothermal and Self-Generated Renewable Power Loan Program; Geothermal Rebate Program for commercial customers; Energy Efficiency Lighting for Small Business Program; Block Heater Timer Program; Refrigerator Recycling Program; and energy-efficient lighting discount and exchange.

Fly ash

Fly ash is a by-product of burning finely pulverized coal in coal-fired stations, and is sold for use in ready-mix concrete, mine backfill, oil well cementing, road base stabilization and liquid waste stabilization applications. Each tonne of fly ash captured and sold that replaces cement prevents roughly one tonne of CO_2 from entering the atmosphere.

In 2012, our company sold approximately 170,000 tonnes of fly ash from the Boundary Dam and Shand Power Stations. During the year, SaskPower and Lehigh Hanson Materials Limited signed a 10-year contract for exclusive rights to market fly ash from Boundary Dam Power Station. Our company also marked the official opening of a new fly ash load out and storage facility at Boundary Dam Power Station that triples storage capacity to 5,000 tonnes. This was part of an ongoing expansion project to compliment the infrastructure added in 2011 that doubled the amount of fly ash that can be collected for sale from Boundary Dam.

SaskPower Shand Greenhouse

SaskPower Shand Greenhouse is a wholly owned subsidiary of SaskPower. Built in 1991 adjacent to the Shand Power Station, its mandate is to increase public awareness of the relationship between electrical generation and the environment and to foster environmental protection by growing and distributing seedlings free of charge for community planting programs, land reclamation, shelterbelts and wildlife habitat development. During the year it distributed 551,460 seedlings, bringing total distribution to over 8.4 million. The facility also reached over 1,100 students through Energy & Our Environment programming. Approximately 1,000 people toured the greenhouse through drop-in and guided experiences.

2012 financial results

(in millions)	2012	2011	Change
Revenue			
Saskatchewan electricity sales	**$ 1,687**	$ 1,667	$ 20
Exports	**49**	40	9
Net sales from electricity trading	**14**	14	–
Share of profit from equity accounted investees	**12**	11	1
Other revenue	**100**	105	(5)
	1,862	1,837	25
Expense			
Fuel and purchased power	**513**	485	28
Operating, maintenance and administration	**612**	575	37
Depreciation and amortization	**316**	290	26
Finance charges	**200**	197	3
Taxes	**47**	43	4
Other losses	**27**	8	19
	1,715	1,598	117
Income before the following	**$ 147**	$ 239	$ (92)
Unrealized market value adjustments	**6**	9	(3)
Net income	**$ 153**	$ 248	$ (95)
Return on equity[1]	**7.9%**	13.2%	(5.3%)

[1] Return on equity = (income before unrealized market value adjustments)/(average equity).

The primary factors contributing to the change in income for the year ending December 31, 2012, are presented below:

Explanation of change (in millions)	**Increase/ (decrease)**
Income before unrealized market value adjustments, for the year ending December 31, 2011	**$ 239**
Increase in Saskatchewan electricity sales as a result of increased demand	**20**
Export revenues up due to market opportunities in Alberta	**9**
Decreased customer contributions for service extensions	**(4)**
Fuel and purchased power costs up due to unfavourable volume and mix variances	**(28)**
OM&A costs up due to storm activity, increased preventative maintenance, and new initiatives	**(37)**
Depreciation expense higher as a result of capital program	**(26)**
Increased losses on asset disposals and retirements	**(19)**
Increase in finance charges and taxes	**(7)**
Income before unrealized market value adjustments, for the year ending December 31, 2012	**$ 147**

Highlights and summary of results

SaskPower's consolidated income before unrealized market value adjustments was $147 million in 2012 compared to $239 million in 2011. The decrease in earnings was primarily due to higher fuel, operating and depreciation costs. The return on equity was 7.9%, down 5.3 percentage points from the previous year.

Total revenue was $1,862 million, up $25 million from 2011. Electricity sales volumes to Saskatchewan customers were 19,497 gigawatt hours (GWh), up 271 GWh or 1.4% compared to the prior year. Exports increased a total of $9 million due to higher sales prices and volumes as a result of increased market opportunities in Alberta. In addition, other revenue and the profit from equity accounted investees decreased $4 million as a result of lower customer contributions.

Total expense was $1,715 million, up $117 million from 2011. Fuel and purchased power costs increased $28 million as a result of an unfavourable change in the fuel mix as lower hydro generation was replaced with more expensive natural gas generation. OM&A costs were up $37 million as the result of increased storm activity, additional preventative maintenance costs and spending on various new initiatives.

Depreciation expense increased $26 million compared to 2011 as a result of $1.6 billion in capital investments in SaskPower's property, plant and equipment over the past two years. Finance charges increased $3 million compared to 2011 due to additional interest expense incurred on our company's long-term borrowings and finance leases offset by higher interest capitalized.

Taxes increased by $4 million as a result of growth in the Corporation's capital tax base. Finally, other losses increased by $19 million due to an increase in asset disposals and retirements during the year.

SaskPower reported $6 million of unrealized market value net gains in 2012, compared to $9 million in 2011. The unrealized market value adjustments represent the change in the market value of our company's outstanding natural gas hedges; electricity contracts; and debt retirement funds at year-end.

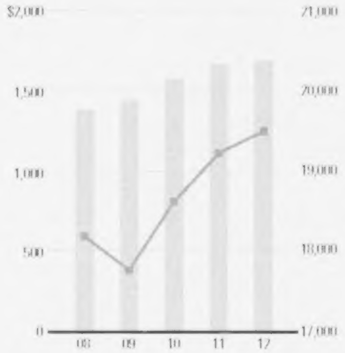
Revenue

A. Saskatchewan electricity sales

(in millions)	2012	2011	Change
Saskatchewan electricity sales	**$ 1,687**	$ 1,667	$ 20

Saskatchewan electricity sales represent the sale of electricity to all customer classes within the province. These sales are subject to the effects of general economic conditions, number of customers, weather and electrical rates.

Saskatchewan electricity sales were $1,687 million, up $20 million from 2011. The increase was due to a growth in sales volumes. Electricity sales volumes to Saskatchewan customers were 19,497 GWh, up 271 GWh or 1.4% compared to the prior year. The rise in sales volumes was driven by the oilfield and major key account customer classes, which showed a combined increase of 403 GWh, or 4% in 2012 compared to 2011. These increases were offset by a decline in sales to residential and farm customers.



SASKATCHEWAN ELECTRICITY SALES

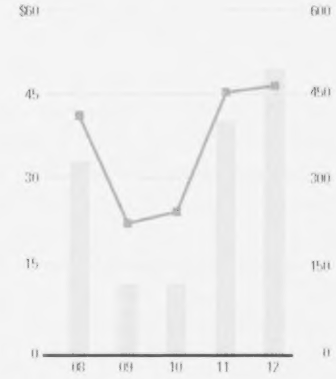
▨ ELECTRICITY SALES (MILLIONS) —■— ELECTRICITY SALES (GWH)

B. Exports

(in millions)	2012	2011	Change
Exports	**$ 49**	$ 40	$ 9

Exports represent the sale of SaskPower's surplus generation to other regions in Canada and the United States. The bulk of our company's exports are traditionally made to the neighbouring Alberta and Midwest Independent Transmission System Operator (MISO) markets. Export pricing is not subject to the rate review process but is determined based on market conditions in other jurisdictions. Export sales volumes are dependent on the availability of surplus SaskPower generation, market conditions in other jurisdictions, and transmission availability.

Exports were $49 million in 2012, up $9 million from 2011. Exports increased significantly due to unplanned unit outages in Alberta which increased the average price and volume of exports to that market. The average export sales price increased from $89/megawatt hour (MWh) in 2011 to $107/MWh in 2012. Export sales volumes also increased 11 GWh, or 2% compared to 2011.



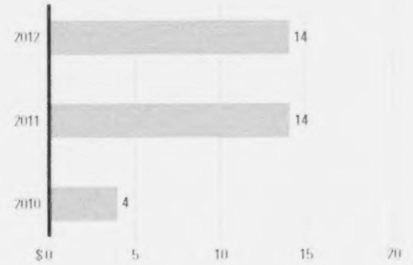
EXPORTS

▨ EXPORTS (MILLIONS) —■— EXPORTS (GWH)

C. Net sales from electricity trading

(in millions)	**2012**	2011	Change
Electricity trading revenue	**$ 29**	$ 41	$ (12)
Electricity trading costs	**(15)**	(27)	12
Net sales from electricity trading	**$ 14**	$ 14	$ –

Electricity trading activities, performed by SaskPower's subsidiary NorthPoint Energy Solutions Inc., include the purchase and resale of electricity and other derivatives in regions outside Saskatchewan. The trading activities include both real-time as well as short- to long-term physical and financial trades in the North American market. The trading activities are intended to deliver positive gross margins to SaskPower's bottom line while operating within an acceptable level of risk.



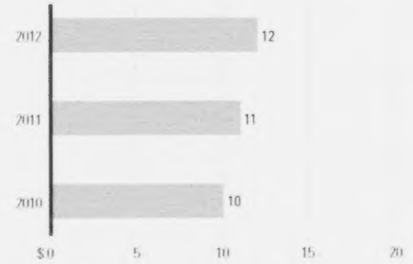
NET SALES FROM ELECTRICITY TRADING

Electricity trading revenue was $29 million, down $12 million from 2011. Overall trading volumes decreased 257 GWh to 361 GWh in 2012. The decline in revenues and trading volumes was the result of the Corporation's decision to scale back trading in eastern North American markets and focus primarily on western North American markets in 2012. Despite the loss of revenues from the eastern markets, the Corporation's margins remained at $14 million, consistent with 2011.

D. Share of profit from equity accounted investees

(in millions)	**2012**	2011	Change
Share of profit from equity accounted investees	**$ 12**	$ 11	$ 1

SaskPower's investments that are accounted for using the equity method include its 30% ownership in the MRM Cogeneration Station (MRM) and a 50% ownership in the Cory Cogeneration Station (Cory). MRM is a 172-MW natural gas-fired cogeneration facility located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The electricity generated by the facility is used by the mine, with excess energy delivered to the Alberta power grid. Cory is a 228-MW natural gas-fired cogeneration plant located at the Potash Corporation of Saskatchewan Cory Division, near Saskatoon, Saskatchewan. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year PPA.



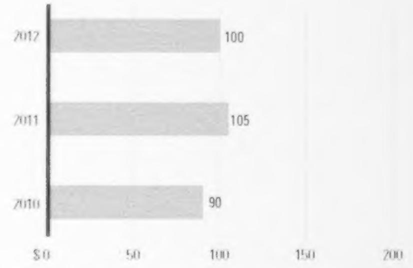
SHARE OF PROFIT FROM EQUITY ACCOUNTED INVESTEES

SaskPower's share of profit from its investments in MRM and Cory was $12 million in 2012, up $1 million from the prior year.

E. Other revenue

(in millions)	2012	2011	Change
Other revenue	**$ 100**	$ 105	$ (5)

Other revenue includes various non-electricity products and services. Other revenue decreased $5 million to $100 million in 2012. The decline was largely due to a decrease in customer contributions. SaskPower received $51 million in customer contributions in 2012, which was down $4 million from record levels in 2011. Customer contributions are funds received from certain customers for the costs of service connections. These contributions are recognized immediately in income when the related property, plant and equipment is available for use.



OTHER REVENUE

▨ OTHER REVENUE (MILLIONS)

Expense

A. Fuel and purchased power

(in millions)	2012	2011	Change
Fuel and purchased power	**$ 513**	$ 485	$ 28

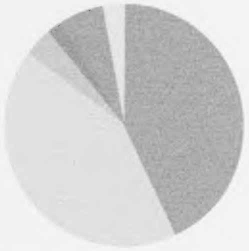
SaskPower's fuel and purchased power costs include the fuel charges associated with the electricity generated from SaskPower-owned facilities and through PPAs, as well as electricity imported from markets outside Saskatchewan. This electricity is used to serve our company's Saskatchewan customers, with surplus electricity being sold to markets outside the province when favourable conditions exist.

Fuel and purchased power costs were $513 million in 2012, up $28 million from 2011. The $28 million increase is a result of unfavourable volume and fuel mix variances offset by a favourable price variance.

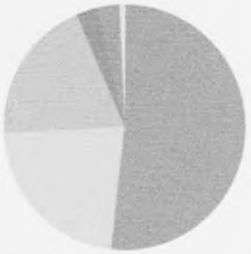
Total generation and purchased power was 22,129 GWh in 2012, an increase of 518 GWh or 2% compared to 2011. The increased generation was required to supply the growth in Saskatchewan and export sales. The higher demand resulted in an estimated $12 million increase in fuel and purchased power costs.

The fuel mix is the relative proportion that each fuel source contributes to our total fuel supply. The more energy that is generated from lower incremental cost units such as hydro, coal and wind, the more favourable the impact on fuel and purchased power costs. During 2012, hydro generation was down 401 GWh or 9% compared to the record hydro levels in 2011. The decreased hydro generation was replaced with more expensive natural gas generation. The Corporation's natural gas generation during the year accounted for 22% of total generation, compared to 19% in the prior year. This unfavourable change in the fuel mix resulted in an estimated $39 million increase in fuel and purchased power costs.

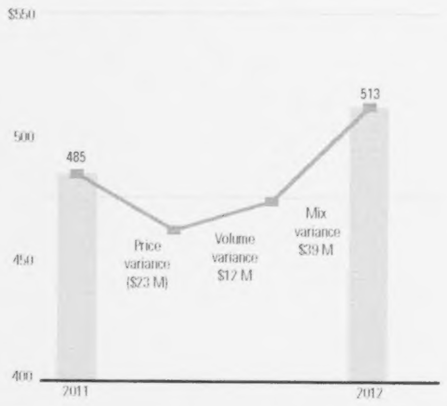
These unfavourable variances were partially offset by an overall decrease in the price of fuel due to lower average natural gas prices which resulted in an estimated $23 million decrease in fuel and purchased power costs.



2012 FUEL AND PURCHASED POWER – $513 MILLION



2012 GROSS ELECTRICITY SUPPLIED – 22,129 GWh



2012 FUEL AND PURCHASED POWER VARIANCE (MILLIONS)

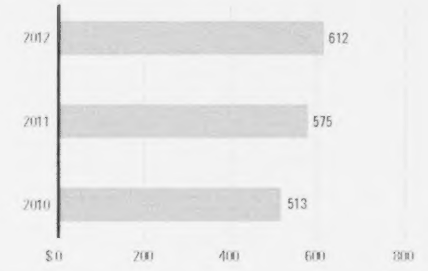
B. Operating, maintenance and administration (OM&A)

(in millions)	2012	2011	Change
OM&A	**$ 612**	$ 575	$ 37

OM&A expense was $612 million in 2012, up $37 million from 2011. The increase was largely due to a $21 million increase in spending on maintenance activities during the year. This included emergency maintenance to address damage to transmission infrastructure caused by summer storm activity, as well as an increase in preventative maintenance activities on SaskPower's transmission and distribution assets. In addition, there was an $8 million increase in operating costs related to the major overhaul performed at the Shand Power Station.

There was also a $5 million increase in operating costs as a result of additional PPA costs and the commissioning of the new Spy Hill Generating Station in the fall of 2011.

Finally, there was a net $3 million increase in spending on various new initiatives, including information technology and support projects and additional DSM programs.



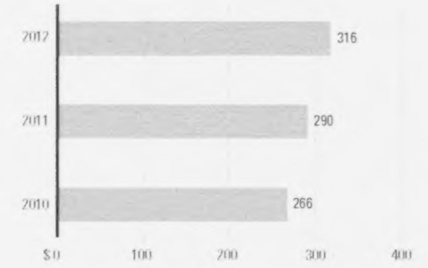
OM&A

C. Depreciation and amortization

(in millions)	2012	2011	Change
Depreciation and amortization	**$ 316**	$ 290	$ 26

Depreciation represents a charge to income for the capital expenditures of SaskPower. The capital expenditures are amortized to income on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Depreciation rates are established based on periodic depreciation studies.

Depreciation expense was $316 million in 2012, up $26 million from 2011. The rise was primarily attributable to an increase in property, plant and equipment as a result of ongoing capital expenditures. In addition, following the completion of an internal depreciation study in 2011, the estimated useful lives of certain asset components were changed. The changes in estimates were applied prospectively effective January 1, 2012, and resulted in approximately a $2 million increase to depreciation expense in 2012.



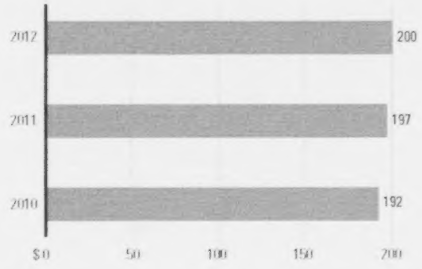
DEPRECIATION AND AMORTIZATION

D. Finance charges

(in millions)		2012		2011		Change
Finance charges	**$**	**200**	$	197	$	3

Finance charges include the net of interest on long-term and short-term debt; interest on finance leases; unwinding discount on provisions; interest capitalized; debt retirement fund earnings; and interest income.

Finance charges were $200 million in 2012, up $3 million from 2011. There was $5 million of additional interest expense incurred as a result of higher debt levels required to finance SaskPower's capital expenditures. Finance lease expense increased $14 million as a result of the commissioning of the Spy Hill Generating Station in the fall of 2011. There was also a $2 million decrease in the amount of debt retirement fund earnings. These increases in finance charges were partially offset by an $18 million increase in interest capitalized during the year as a result of $981 million in capital spending in 2012.



FINANCE CHARGES

▩ FINANCE CHARGES (MILLIONS)

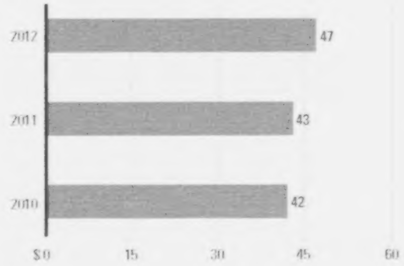
E. Taxes

(in millions)		2012		2011		Change
Taxes	**$**	**47**	$	43	$	4

Taxes represent the payment of corporation capital tax to the Province of Saskatchewan and grants-in-lieu of taxes paid to 13 cities in Saskatchewan.

Taxes were $47 million in 2012, up $4 million from 2011. This increase was primarily due to a $3 million increase in corporate capital tax as a result of growth in the Corporation's capital tax base.

There was also a $1 million increase in grants-in-lieu of taxes as a result of rising Saskatchewan electricity sales.



TAXES

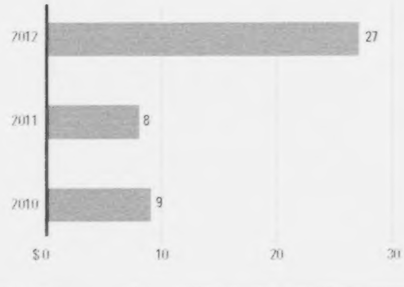
▩ TAXES (MILLIONS)

F. Other losses

(in millions)		2012		2011		Change
Other losses	**$**	**27**	$	8	$	19

Other losses include the net losses on asset disposals and retirements, foreign exchange and environmental remediation activities.

Other losses were $27 million in 2012, up $19 million compared to 2011. The $19 million increase was due to additional disposal costs and charges to write-off the unamortized value of assets that were retired during the year. This includes assets retired as a result of major overhauls performed at the Shand and Queen Elizabeth Power Stations as well as the retirement of various transmission and distribution assets.



OTHER LOSSES

▩ OTHER LOSSES (MILLIONS)

G. Unrealized market value adjustments

(in millions)	2012	2011	Change
Natural gas contracts	**$ 19**	$ (2)	$ 21
Natural gas inventory revaluation	**3**	(6)	9
Electricity contracts	**(4)**	6	(10)
Debt retirement funds	**(12)**	11	(23)
Unrealized market value adjustments	**$ 6**	$ 9	$ (3)

Unrealized market value adjustments represent the change in the market value of the Corporation's outstanding natural gas hedges; natural gas inventory; electricity trading contracts; and debt retirement funds at period-end. These non-cash transactions resulted in a net market value gain for the year of $6 million compared to $9 million in the prior year.

SaskPower has outstanding natural gas hedges of approximately 87 million notional gigajoules (GJs) to cap the price of natural gas on a portion of the Corporation's anticipated natural gas needs for the period of 2013 to 2022. The unrealized market value gains on these outstanding natural gas hedges and forward natural gas contracts were $19 million. The gains are the result of changes in the forward price of natural gas and the settlement of natural gas hedge contracts. These unrealized gains are subject to significant volatility based on movements in the forward price of natural gas.

With a rise in forward natural gas prices, the net realizable value of the Corporation's natural gas inventory held in storage has improved. As a result, SaskPower reversed $3 million of write-downs which were recognized in the prior year.

Unrealized market value losses related to SaskPower's outstanding electricity derivative contracts were $4 million, a $10 million decline from the prior year as a result of a decrease in forward electricity prices. The Corporation also recorded $12 million in market value losses related to its debt retirement funds, which represents a $23 million decrease compared to the prior year.

2012 quarterly results

The following chart outlines the quarterly results of SaskPower in 2012:

(in millions)	Q1	Q2	Q3	Q4	Total
Revenue					
Saskatchewan electricity sales	$ 427	$ 410	$ 415	$ 435	**$ 1,687**
Exports	8	6	17	18	**49**
Net sales from electricity trading	5	3	3	3	**14**
Share of profit from equity accounted investees	5	2	2	3	**12**
Other revenue	20	28	27	25	**100**
	465	449	464	484	**1,862**
Expense					
Fuel and purchased power	134	112	119	148	**513**
Operating, maintenance and administration	144	152	155	161	**612**
Depreciation and amortization	77	78	79	82	**316**
Finance charges	49	50	51	50	**200**
Taxes	12	12	12	11	**47**
Other losses	2	5	7	13	**27**
	418	409	423	465	**1,715**
Income before the following	$ 47	$ 40	$ 41	$ 19	**$ 147**
Unrealized market value adjustments	(20)	15	14	(3)	**6**
Net income	$ 27	$ 55	$ 55	$ 16	**$ 153**

Financial condition

The following chart outlines changes in the consolidated statement of financial position from December 31, 2011, to December 31, 2012:

(in millions)	**Increase/ (decrease)**	**Explanation of change**
Accounts receivable and unbilled revenue	**$ 28**	Higher electricity sales in December 2012 relative to December 2011.
Inventory	**11**	Increase in supplies for capital projects.
Prepaid expenses	**1**	Timing of payments.
Property, plant and equipment	**643**	Capital additions offset by depreciation expense and asset disposals and retirements.
Intangible assets	**10**	Capitalization of new software costs less amortization expense.
Debt retirement funds	**37**	Installments and earnings less market value adjustments.
Investments accounted for using equity method	**4**	Equity investment income net of distributions.
Other assets	**(2)**	Amortization of long-term coal supply agreements.
Bank indebtedness	**(6)**	Refer to consolidated statement of cash flows.
Accounts payable and accrued liabilities	**–**	
Accrued interest	**3**	Increase in long-term debt.
Risk management liabilities (net of risk management assets)	**(11)**	Improvement in the forward prices of natural gas contracts.
Short-term advances	**512**	Use of variable short-term advances to finance SaskPower's capital expenditures.
Long-term debt (including current portion)	**206**	Advances from the Government of Saskatchewan less amortization of debt premiums.
Finance lease obligations (including current position)	**(3)**	Lease principal repayments.
Employee benefits	**25**	Actuarial losses on the defined benefit pension plan offset by employee benefits paid.
Provisions	**12**	Increase in decommissioning and environmental remediation provisions and unwinding the discount on these provisions.
Equity	**(6)**	2012 comprehensive income less dividends paid to CIC.

Liquidity and capital resources

SaskPower raises most of its capital through internal operating activities and through borrowings obtained from the Government of Saskatchewan Ministry of Finance. This type of borrowing allows our company to take advantage of the Government of Saskatchewan's strong credit rating. *The Power Corporation Act* provides SaskPower with the authority to have outstanding borrowings of up to $5 billion. This includes $1.4 billion which may be borrowed by way of temporary loans through the Government of Saskatchewan and through available credit of $51 million at financial institutions.

The other major sources of financing utilized by our company include non-recourse debt that was issued in 2001 to finance SaskPower's share of the Cory Cogeneration Station and $660 million in equity advances that were provided by CIC from 1989-1992 to form CIC's equity capitalization in SaskPower.

Cash flow highlights

(in millions)	**December 31 2012**	December 31 2011	Change
Bank indebtedness	**$ –**	$ (6)	$ 6

SaskPower's cash position improved $6 million during 2012. This was the result of $389 million provided by operating activities and $567 million provided by financing activities, offset by $950 million used in investing activities.

A. Operating activities

(in millions)	**2012**	2011	Change
Cash provided by operating activities	**$ 389**	$ 543	$ (154)

Cash provided by operating activities was down $154 million in 2012 compared to 2011. The $154 million decrease was attributable to the decline in net income as a result of higher fuel and operating costs.

B. Investing activities

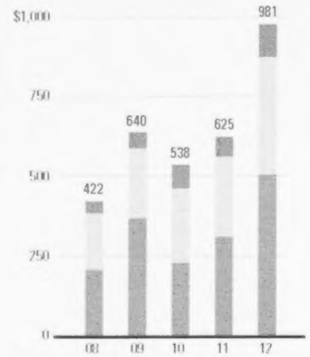
(in millions)	**2012**	2011	Change
Generation	**$ 506**	$ 311	$ 195
Transmission and distribution	**370**	253	117
Other	**105**	61	44
Total capital expenditures	**$ 981**	$ 625	$ 356
Less: Interest capitalized	**(30)**	(12)	(18)
Net costs of removal of assets	**7**	(2)	9
Distributions from equity accounted investees	**(8)**	(6)	(2)
Cash used in investing activities	**$ 950**	$ 605	$ 345

In order to ensure a safe, reliable, and sustainable supply of electricity for its customers, SaskPower spent a record $981 million on various capital projects during 2012, compared to $625 million in 2011. Our company invested in the following areas during the year:

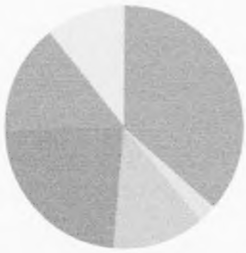
- $357 million on the Boundary Dam Integrated Carbon Capture and Storage (ICCS) Demonstration Project.
- $149 million on renewing other generation assets, including $70 million on the Shand Power Station overhaul and Queen Elizabeth Power Station repowering.
- $226 million to connect customers to the SaskPower electric system.
- $144 million on increasing capacity and sustaining transmission and distribution infrastructure. This includes $28 million on the testing and replacement of aging wooden poles.
- $105 million on other property, plant and equipment, including $20 million on vehicles and equipment, $18 million on AMI implementation and $31 million on corporate information and technology assets.

Also included in the cash flows used in investing activities were the following:

- $7 million in net costs incurred on the disposal and retirement of certain assets.
- SaskPower received $8 million in equity distributions from the MRM and Cory Cogeneration Stations in 2012.



CAPITAL EXPENDITURES (MILLIONS)



2012 CAPITAL EXPENDITURES – $981 MILLION

C. Financing activities

(in millions)		2012		2011		Change
Net proceeds from short-term advances	$	**512**	$	92	$	420
Proceeds from long-term debt		**207**		–		207
Dividends paid		**(120)**		–		(120)
Debt retirement fund instalments		**(27)**		(27)		–
Principal repayment of finance lease obligations		**(3)**		(2)		(1)
Realized losses on cash flow hedges		**(2)**		–		(2)
Cash provided by financing activities	**$**	**567**	$	63	$	504

In 2012, $567 million of cash was provided by financing activities, compared to $63 million in 2011. This included $719 million in short-term and long-term advances provided through the Government of Saskatchewan's General Revenue Fund. This was offset by $120 million in dividends paid to CIC, $27 million in debt retirement fund instalments, $3 million in lease principal repayments and $2 million in realized losses on derivatives designated as cash flow hedges.

Capital management

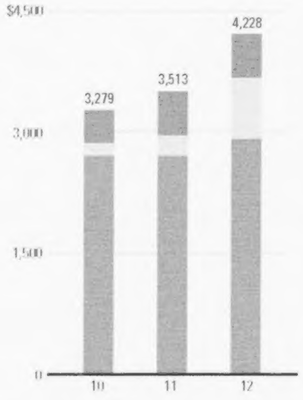
(in millions)		December 31 2012		December 31 2011		Change
Long-term debt	$	**2,913**	$	2,707	$	206
Short-term advances		**763**		251		512
Finance lease obligations		**552**		555		(3)
Total debt	**$**	**4,228**	$	3,513	$	715
Debt retirement funds		**(390)**		(353)		(37)
Bank indebtedness		**–**		6		(6)
Total net debt	**$**	**3,838**	$	3,166	$	672
Retained earnings		**1,204**		1,204		–
Accumulated other comprehensive loss		**(6)**		–		(6)
Equity advances		**660**		660		–
Total capital	**$**	**5,696**	$	5,030	$	666
Per cent debt ratio[1]		**67.4%**		63.0%		4.4%

[1] Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term debt + short-term advances + finance lease obligations + bank indebtedness – debt retirement funds – cash and cash equivalents).

SaskPower's total debt position (including finance lease obligations) was $4.2 billion at December 31, 2012, up $715 million from December 31, 2011. The increase was the result of the following:

- On November 7, 2012, the Corporation, through the Government of Saskatchewan's General Revenue Fund, borrowed $200 million of long-term debt at a premium of $7 million. The debt issue had a coupon rate of 3.4%, an effective interest rate of 3.22%, and a maturity date of February 3, 2042.
- $512 in additional short-term advances.
- The proceeds from the new borrowings were offset by $3 million in lease principal repayments and $1 million in amortization of debt premiums.

SaskPower's per cent debt ratio was 67.4%, up from 63.0% at the end of 2011.



TOTAL DEBT (MILLIONS)

Debt retirement fund instalments

(in millions)	2012	2011	Change
Debt retirement fund instalments	**$ 27**	$ 27	$ –

Debt retirement funds are monies set aside to retire outstanding long-term debt upon maturity. SaskPower makes regular contributions to the funds, which are held and invested by the Government of Saskatchewan's General Revenue Fund.

During the year, our company made $27 million in contributions to the debt retirement funds on outstanding debt issues as required by the terms of the advances from the Government of Saskatchewan's General Revenue Fund. SaskPower also earned $22 million (included with finance charges and classified as non-cash operating activities), on the debt retirement funds for the year.

Dividends

In the first quarter of 2012, it was determined that SaskPower would pay a special $120 million dividend to CIC as a result of higher than expected earnings in 2011. The special dividend was paid in equal quarterly instalments in 2012.

Contractual obligations

SaskPower has the following significant long-term contractual obligations as at December 31, 2012, which will impact cash flows in 2013 and beyond:

(in millions)	1 year	1 - 5 years	More than 5 years
Long-term debt (including principal and interest)	$ 278	$ 692	$ 5,068
Debt retirement fund instalments	27	111	425
Future minimum lease payments	72	305	991

SaskPower's financing requirements for the next year will include $278 million in principal and interest payments on existing advances, $27 million of debt retirement fund instalments, and $72 million in minimum lease payments under existing PPAs. Included in the future minimum lease payments is the availability payments related to the PPAs, which have been classified as finance leases. SaskPower evaluates the need for additional borrowings throughout the year.

Outlook

2013 budget vs. 2012 actual results

The following chart outlines the 2013 budget as compared to SaskPower's 2012 actual results. These earnings expectations are subject to a number of variables including: natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

(in millions)	Budget 2013	Actual 2012	Change
Revenue			
Saskatchewan electricity sales	**$ 1,874**	$ 1,687	$ 187
Exports	**27**	49	(22)
Net sales from electricity trading	**12**	14	(2)
Share of profit from equity accounted investees	**8**	12	(4)
Other revenue	**94**	100	(6)
	2,015	1,862	153
Expense			
Fuel and purchased power	**545**	513	32
Operating, maintenance and administration	**615**	612	3
Depreciation and amortization	**363**	316	47
Finance charges	**303**	200	103
Taxes	**54**	47	7
Other losses	**9**	27	(18)
	1,889	1,715	174
Income before the following	**$ 126**	$ 147	$ (21)
Unrealized market value adjustments	**–**	6	(6)
Net income	**$ 126**	$ 153	$ (27)
Return on equity	**6.4%**	7.9%	(1.5)%

SaskPower's income before unrealized market value adjustments is expected to be $126 million in 2013, resulting in a return on equity of 6.4%.

In 2013, Saskatchewan sales are expected to increase $187 million to $1.874 billion due to a 1,649 GWh increase in electricity sales volumes, primarily in the oilfield and key account customer segments, which is expected to provide an additional $98 million in revenue. The Corporation also received approval for a system-wide average rate increase of 5.0% effective January 1, 2013, which is expected to provide $89 million in additional revenue in 2013. The increase in Saskatchewan electricity sales is expected to be offset by a $34 million decrease in all other revenue sources as a result of improved stability in electricity market prices in 2013 and lower customer contribution revenue.

Fuel and purchased power costs are expected to increase $32 million. This is due to higher generation volumes and an unfavourable change in the fuel mix as it is anticipated that hydro will return to median levels. OM&A expense is expected to remain flat while depreciation, finance charges, taxes and other expenses are expected to increase $139 million as a result of SaskPower's ongoing capital program.

2013 capital expenditures

(in millions)	Budget 2013	Actual 2012	Change
Capital expenditures	**$ 1,150**	$ 981	$ 169

SaskPower also expects to continue to make substantial investments in its infrastructure over the next 10 years. Capital expenditures in 2013 are forecast to be approximately $1.150 billion. This includes costs for the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project and associated Boundary Dam Power Station Unit #3 refurbishment; repowering of the Queen Elizabeth Power Station; maintaining and refurbishing the existing generation fleet; upgrading various transformers as well as transmission and distribution lines; and connecting new customers to SaskPower's grid.

Related party transactions

SaskPower also has a number of routine transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to our company by virtue of common control by the Government of Saskatchewan. These transactions with related parties are settled at prevailing market prices under normal trade terms. Related party transactions are disclosed in *Note 29* to the consolidated financial statements.

Analysis of critical accounting policies and estimates

SaskPower's significant accounting policies are described in *Note 3* to the consolidated financial statements. Some of these policies involve accounting estimates that require management to make particularly subjective or complex judgments about matters that are inherently uncertain. Different conditions or assumptions regarding the estimates could result in materially different results being reported. Management has discussed the development and selection of these critical accounting policies with the Board of Directors and the external auditors.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements.

Revenue

Electric revenues are billed on a systematic basis over a monthly or quarterly period for all SaskPower customer classes. At the end of each month, SaskPower makes an estimate of the electricity delivered to its customers since their last billing date. The estimated unbilled revenue is based on several factors, including estimated consumption for each customer, applicable customer rates and the number of days between the last billing date and the end of the period. As at December 31, 2012, total Saskatchewan electricity sales of $1,687 million included $63 million of estimated unbilled revenue.

Allowance for doubtful accounts

An allowance for doubtful accounts is calculated for both energy and non-energy sales. The allowance for doubtful accounts is reviewed quarterly based on an estimate of outstanding amounts that are considered uncollectible based on past experience. Historically, SaskPower has not written-off a significant portion of its accounts receivable balances.

Depreciation

Property, plant and equipment represent 86% of total assets recognized on SaskPower's statement of financial position. Included in property, plant and equipment are the generation, transmission, distribution and other assets of SaskPower. Due to the size of SaskPower's property, plant and equipment, changes in estimated depreciation rates can have a significant impact on income.

Depreciation is recognized on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Depreciation commences when the property, plant and equipment is ready for its intended use. The estimated useful life of property, plant and equipment is based on manufacturers' guidance, past experience and future expectations regarding the potential for technical obsolescence. The estimated useful lives of the components are based on formal depreciation studies that are performed every five years, with annual reviews for reasonableness. A one-year increase in the average estimated service life of each of the major asset classes of property, plant and equipment would result in a $17 million decrease to depreciation expense in the current year.

Following the completion of an internal depreciation study, the estimated useful lives of certain assets were changed. The change in estimate was applied prospectively, effective January 1, 2012. The impact of the change in estimated useful lives was a $2 million increase to depreciation expense in 2012. See *Note 3(e)* and *Note 8* to the consolidated financial statements for additional discussion of SaskPower's depreciation expense.

Provisions

A provision is recognized if, as a result of a past event, SaskPower has a present legal or constructive obligation that can be estimated reliably. It must also be probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the discount on provisions is recognized in profit or loss as a finance expense.

Decommissioning provisions

A decommissioning provision is a legal or constructive obligation associated with the decommissioning of a long-lived asset. SaskPower recognizes decommissioning provisions in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. Our company recognizes provisions to decommission coal, natural gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. SaskPower also recognizes provisions for the decommissioning of assets containing polychlorinated biphenyls (PCBs) in excess of existing federal regulations.

The fair value of the estimated decommissioning costs is recorded as a provision, with an offsetting amount capitalized and included as part of property, plant and equipment. The decommissioning provisions are increased periodically for the passage of time by calculating interest expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding anticipated future cash flows, including the method and timing of decommissioning and estimates of future inflation. Decommissioning provisions are periodically reviewed and any changes are recognized as an increase or decrease in the carrying amount of the obligation and the related asset.

Environmental remediation liabilities

A provision for environmental remediation is accrued when the occurrence of an environmental expenditure, related to present or past activities of SaskPower, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations and remediation at identified sites. These provisions are based on management's best estimate considering current environmental laws and regulations and are recorded at fair value. SaskPower reviews its estimates of future environmental expenditures on an ongoing basis.

A 0.5% increase in the discount rate would result in a $10 million decrease to the decommissioning provisions and environmental remediation liabilities and would have no material impact on finance expense in the current year. See *Note 3(h)* and *Note 22* to the consolidated financial statements for additional discussion of SaskPower's provisions.

Employee benefits

As explained in *Note 3(o)* and *Note 30* in the consolidated financial statements, SaskPower provides post-retirement benefits to employees, including those from a defined benefit pension plan (the Plan). The Plan, substantially closed to new members since 1977, provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. Pensions are increased annually at a rate equal to 70% of the increase in the Saskatchewan consumer price index (CPI).

The cost of pension benefits under the Plan are determined by an independent actuary using the projected unit credit method. This reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing. In 2012, based on long-term assumptions the actuary calculated pension income of $5 million compared to $1 million in 2011. This is a non-cash item that is included in OM&A expense on the statement of income. SaskPower also recognized the current status of the Plan on the statement of financial position and the actuarial gains and losses of the Plan directly in other comprehensive income.

Actuarial gains and losses

Actuarial gains and losses on Plan assets are determined by calculating the difference between actual and expected returns of Plan assets based upon long-term actuarial assumptions. Actuarial gains and losses on the accrued benefit obligation are calculated by an independent actuary based on the discount rate in effect at period end. For the year ending December 31, 2012, $33 million in actuarial losses were recognized directly in other comprehensive income relating to SaskPower's defined benefit pension plans.

Changes in the long-term assumptions, including the anticipated return on plan assets and the discount rates used in determining the benefit obligation and current period service costs, can have a significant impact on the pension costs of SaskPower.

Expected long-term rate of return

The expected long-term rate of return on plan assets is based upon economic forecasts for the types of investments held by the Plan. In 2012, the expected long-term rate of return on plan assets remained at 6.75%, consistent with the prior year. A 0.25% increase in the expected long-term rate of return on plan assets would result in a $2 million increase in pension income and no change in the employee benefits liability recorded in the consolidated financial statements.

Discount rate

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of SaskPower's obligations. The discount rate was decreased from 4.25% at the beginning of the year to 3.75% at the end of the year to reflect the change in bond markets over that period. A 0.25% increase in the discount rate would result in a $1 million decrease in pension income and a $28 million decrease in the employee benefits liability recorded in the consolidated financial statements.

Future accounting policy changes

IFRS 9, *Financial Instruments*

IFRS 9 was issued by the International Accounting Standards Board (IASB) on November 12, 2009, and will replace International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within net income. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2015. SaskPower is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements. The Corporation does not have any plans to early adopt the new standards.

IFRS 10, *Consolidated and IAS 27, Separate Financial Statements*

IFRS 10 and IAS 27 were issued by the IASB on May 12, 2011, and together will replace IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included with the consolidated financial statements of the parent company. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements. The standards are to be applied retrospectively, in most circumstances, and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 10 and IAS 27 will have no material impact on its consolidated financial statements.

IFRS 11, *Joint Arrangements*

IFRS 11 was issued by the IASB on May 12, 2011, and will replace IAS 31, *Interests in Joint Ventures*. IFRS 11 requires a party to a joint arrangement to determine the type of arrangement, either a joint operation or a joint venture, by assessing its rights and obligations arising from the arrangement. The standards are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has determined that upon adoption of IFRS 11 its investment in the Cory Cogeneration Station and Cory Cogeneration Funding Corporation joint arrangements which meet the definition of joint operations, will be accounted for using the proportionate consolidation method. The adoption of the IFRS 11 will have no material impact on the consolidated financial statements.

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12 was issued by the IASB on May 12, 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 12 will have no material impact on its consolidated financial statements. The new disclosure requirements will be provided in the 2013 consolidated financial statements.

IFRS 13, *Fair Value Measurement*

IFRS 13 was issued by the IASB on May 12, 2011. IFRS 13 defines fair value, sets out a framework for measuring it and introduces consistent requirements for disclosures on fair value measurements. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 13 will have no material impact on its consolidated financial statements. The new disclosure requirements will be provided in the 2013 consolidated financial statements.

Amendments to IAS 28, *Investments in Associates and Joint Ventures*

An amended version of IAS 28 was issued by the IASB on May 12, 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IAS 28 will have no material impact on its consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements*

An amended version of IAS 1 was issued by the IASB on June 16, 2011. The amendments to IAS 1 require items within other comprehensive income that may be reclassified to profit or loss to be grouped together. The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after July 1, 2012. SaskPower has reviewed the new standards and determined the adoption of the amendments to IAS 1 will have no material impact on its consolidated financial statements. The new presentation requirements will be disclosed in the 2013 consolidated financial statements.

Amendments to IAS 19, *Employee Benefits*

An amended version of IAS 19 was issued by the IASB on September 16, 2011. The revised IAS 19 eliminates the option to defer the recognition of gains and losses (the 'corridor method'); streamlines the presentation of changes in asset and liabilities arising from defined benefit plans; and enhances the disclosure requirements for defined benefit plans. The amendments will require remeasurements (actuarial gains and losses and the actual return on plan assets) to be recognized immediately in other comprehensive income and all current service costs and interest income (expense) to be recognized immediately in net income. Interest income (expense) will be calculated by applying the discount rate to the net defined benefit asset (liability). The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of the amendments to IAS 19 will have no material impact on its consolidated financial statements.

Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* and IFRS 7, *Disclosures*

On December 16, 2011, the IASB issued amendments to IAS 32 and IFRS 7 as part of its offsetting project. The amendments clarify certain items regarding offsetting financial assets and financial liabilities and also address common disclosure requirements. The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013, for IFRS 7 and January 1, 2014, for IAS 32. SaskPower has reviewed the new standards and determined the adoption of the amendments to IFRS 7 and IAS 32 will have no material impact on its consolidated financial statements.

Risk management

SaskPower is subject to a variety of risks and uncertainties that could impact the achievement of our business objectives and the Corporation's financial and operating performance. Strategic, financial, operational, environmental, compliance and reputation risks are managed through an Enterprise Risk Management (ERM) Program that protects value and enables performance by managing and aligning sound risk management practices with our strategic business objectives. While our philosophy is that risk management is the responsibility of all employees, specific responsibilities are described below.

The Board of Directors provides oversight and stewardship of the Corporation, establishes policies and procedures, defines acceptable risk tolerance, and receives an annual report of SaskPower's top risks to satisfy themselves that effective risk management systems and processes are in place. The report provides a holistic view of the Corporation's top risks, how the magnitude and probability of the risks are assessed, who is responsible to manage these risks, and how these risks are mitigated. The report helps the Board of Directors fulfill its requirement to understand the key risks inherent to the Strategic Plan and to direct management to address any risk levels it believes are not optimal to improve performance and for shareholder value preservation and creation.

The Audit & Finance Committee of the Board of Directors reviews the Corporation's risk appetite and tolerances, risk profile, and the appropriateness of the ERM Program. The Audit & Finance Committee assists the Board of Directors in fulfilling its oversight responsibility relating to the integrity of financial statements and the reporting process, as well as the systems of internal accounting and financial controls. In addition, the Audit & Finance Committee has oversight responsibilities for the internal audit function and the external auditors' qualifications, terms and conditions of appointment, remuneration, independence, performance and reports.

The President and Chief Executive Officer has ultimate accountability for risk management and is supported by the executive, which consists of direct reports who provide oversight and risk management within SaskPower.

SaskPower's risk management area is staffed by experienced risk professionals who are responsible for compiling risk reporting for the Board, Audit & Finance Committee, and executive. They participate in risk identification, analysis and reporting across all divisions and major projects. They analyze commercial and environmental risk exposures in our assets and trading operations, as well as ensure our daily market price exposure is kept within approved risk metrics including value at risk (VaR), position limits, term limits, and market limits.

SaskPower's ERM Program delivers a consistent and robust approach which conforms to the CIC Risk Management Minimum Standards Policy.

Major risk factors

Top risk factors are identified each year that could impact SaskPower corporate strategies and priorities; influence financial and operating results; and affect achievement of our business objectives. The risks are identified and assessed by executive and business divisions that provide a top-down and a bottom-up view of enterprise risks. These risks do not occur in isolation and must be considered in conjunction with each other and in the context of the SaskPower organization. The following section addresses the top risks facing the Corporation in 2012.

1. **Reliability and infrastructure adequacy**
   A large portion of SaskPower's critical generation and distribution assets are near or at the end of their expected service life. Aging assets are increasingly expensive to maintain and operate and may be less efficient than newer technologies. They may also contribute to system reliability risk. SaskPower employs risk and insurance management professionals and maintains appropriate insurance policies to mitigate the impact of losses arising from the operation or failure of our assets.

   To meet the demand for electricity associated with economic growth and a forecast increase in sales SaskPower will require new generation and transmission assets and increased use of partnerships. By assessing critical asset risk and developing a responsive asset management plan, SaskPower is able to optimize capital spending and manage assets efficiently and effectively. SaskPower's asset maintenance is critical to infrastructure reliability, system security and availability.

   In 2012, SaskPower combined its generation, transmission, distribution and asset management functions under a new corporate umbrella — Operations. The objective is to focus on customer and stakeholder needs and optimize how SaskPower manages existing assets.

Generation

Unplanned generation outages that are long in duration could have significant economic consequences and may result in an inability to serve domestic load.

SaskPower manages generation equipment and technology risk by:

- Operating generating facilities within standards that are designed to maximize the output of generating facilities and maximize asset life
- Performing routine preventative maintenance and adhering to a comprehensive plant maintenance program
- Monitoring technological advances and evaluating their impact upon our existing generating fleet and related maintenance programs

Transmission and distribution

The transmission and distribution circuits that carry electricity from generators to customers have limited carrying capacity and are subject to age, fatigue and weathering. Failure to maintain the system or expand it when needed may result in outages.

During 2012, SaskPower continued to develop its asset management strategy, field services capabilities, emergency operations response, contract and contractor management capabilities and project management office to manage these risks. The Corporation committed significant resources to distribution and transmission customer connects; rural rebuild and improvements; pole changes and testing; and transmission substation improvements. A major milestone was achieved by clearing 174 kilometers of thick brush in the province's remote north to support construction of the Island Falls to Key Lake (I1K) Transmission Line, which will service both new and expanding northern mines. The I1K line will be the backbone of our far north transmission system, which is needed to meet increasing power requirements.

Supply plan

While economic conditions in Saskatchewan remain strong, uncertainties persist in global markets. As a result, our province — as an exporting economy — is vulnerable. This uncertainty adds to the challenges of load forecasting, creating a risk of the over- or under-supply of electricity in a given period.

SaskPower has developed electricity supply scenarios that are helping our company contemplate future sources of power generation and what might work best for Saskatchewan in the face of considerable uncertainty. They examine a number of factors, such as the need to capitalize on the strategic value of coal resources while transitioning our fleet to meet new emissions requirements, as well as engagement with key stakeholders and managing uncertainties such as fuel costs.

Emergency preparedness

Our facilities are exposed to the effects of severe weather events, natural disasters, and man-made events (including cyber and physical attacks). Low frequency, high impact catastrophic events are also a threat. Although constructed, operated and maintained to industry standards, our facilities may not withstand occurrences of these types in all circumstances. Losses from lost revenues and repair costs could be substantial, especially for many facilities that are located in remote areas.

This risk is partly mitigated because our transmission system is designed and operated to withstand the loss of any single major element. In most cases, it possesses inherent redundancy that provides alternate means to deliver power to our customers. In the event of any outage, we would be forced to make the repairs necessary and fund the repairs from operating earnings.

SaskPower has business continuity and emergency plans to deal with a variety of adverse events. Our company has committed approximately $2.2 million over the next 24 months to implement recommendations to enhance business continuity and disaster recovery programs.

2. **Security (cyber and physical)**

SaskPower is subject to criminal or malicious attacks, both in cyber and physical ways. This could potentially result in the disruption of business operations and service, and lead to the loss of or damage to information, facilities and equipment. The results can lead to loss of customer trust and stakeholder confidence as well as additional costs of recovery and restoration.

In conducting its business, SaskPower utilizes critical information systems on a standalone and networked basis. Loss of hardware or software systems will pose a threat to the reliable operation of the electric system. Systems are susceptible to failure and damage — or conversion from their intended use — through inadvertent and unlawful acts. Our company may be subject to malicious or criminal acts, including sabotage and terrorism, resulting in the theft of or damage to assets.

SaskPower maintains industry standard policies, processes and technical safeguards to ensure only authorized access and use of its information systems. Our company utilizes a risk management approach to ensure threats to its information systems are efficiently and effectively addressed. An information security program is in place and it utilizes, amongst other key controls, policies and procedures to ensure identified critical systems can be recovered or reinstated in the event of an adverse event and system failure. SaskPower maintains hiring, training, operating, security, maintenance and capital programs designed to provide for the safe and reliable operation of its information systems.

Our company has various policies and procedures pertaining to the protection of corporate assets and employs cyber and physical security professionals who have responsibility for security, threat and risk assessment, and investigations. In addition, SaskPower uses electronic surveillance and detection methods. Our company maintains reasonable levels of insurance to protect it against theft- or vandalism-related losses.

In 2012, the Enterprise Security area was established as an independent entity responsible for company-wide informational technology, operational technology, and physical and personnel security controls.

SaskPower's daily operations rely on data and information. They need to be treated as assets in a consistent, optimal and responsible manner to support corporate processes and decision making. With the wave of retiring employees, it is critical that knowledge and corporate memory is retained. With the rate of growth for information expanding, there is an increased need for effective management, in the areas of classification, security, and governance. SaskPower's Enterprise Information Management (EIM) Program enhances our ability to capture, organize, manage, preserve, share and deliver the right information to the right people at the right time.

3. **Cost control and reduction**

SaskPower must enact cost controls and reductions to demonstrate ongoing cost management and achieve timely approval of requested rate increases to meet return on equity targets and to maintain appropriate debt levels.

Return on equity and rate increases

The need for substantial investments to fund infrastructure renewal and growth over the next 10 years will require rate increases to help maintain financial strength and capacity. The rates that SaskPower may charge customers are subject to review by the Saskatchewan Rate Review Panel (SRRP) with final approval by cabinet. The SRRP considers electricity billing rates based on projected electricity load and consumption levels. If actual load or consumption falls below projected levels, our company's rate of return could be adversely affected in a significant way. There is the possibility that SaskPower could incur unexpected capital expenditures to replace, maintain or improve assets. The risk exists that the SRRP may not allow full recovery of such investments. In addition, it is possible that even once approvals are obtained they may be subsequently challenged, appealed or overturned. This could impact our ability to service additional debt and to recover costs already incurred in the planning and development of such projects.

To the extent possible, SaskPower aims to mitigate these risks by ensuring prudent expenditures, clearly communicating the need for capital investment and seeking from the regulator clear policy direction on cost responsibility. SaskPower is employing a flexible multi-year rate strategy that aims to smooth the projected trend for rate increases to reflect regular, smaller increases rather than less frequent but larger increases. The strategy also aligns costs with revenues across the various customer classes, and seeks to attain a return on equity target of 8.5% over time, and on average. In years where large rate increases are warranted, the return on equity target may be modified for that year to help keep increases as low as possible — in the range of 3.5% to 7.5%. In 2012, a 5.0% system-wide average rate increase was approved effective January 01, 2013.

Business renewal

SaskPower has entered into a growth phase requiring the significant replacement of aging assets while managing growing load requirements resulting in increased capital, OM&A and labour budgets.

SaskPower understands that our company's shareholder, the SaskPower Board of Directors, the SRRP, customers and other external stakeholders expect that we will take significant steps to enhance productivity, operate our business efficiently, and prudently manage or reduce costs. During 2012, SaskPower continued into the third year of a Business Renewal Program intended to increase efficiency and effectiveness and to improve performance across our business and to implement viable savings and benefits opportunities. Many of these initiatives are based on an asset management system that coordinates activities and practices based on asset performance, risks and expenditures over their life cycles. In addition, SaskPower is focusing on inventory and logistics as well as all expense categories, including finance charges and fuel, to achieve savings.

In 2012, SaskPower continued to improve customer service through its SDR Program. This initiative is a re-engineering of the processes used to serve customers, from the customer's initial contact through to connection, as well as dealing with complaints and queries, meter reading, and maintaining distribution infrastructure.

4. Uncertain operating environment (economic, regulatory, political and environmental)

Changes in general economic conditions impact electricity demand, revenue, operating costs, interest rates, timing and extent of capital expenditures, results of financing efforts, credit risk, and counterparty risk. SaskPower monitors events in its business environment and endeavours to anticipate any impacts on our company as a result of changes in demand for both load and new connections. In addition, SaskPower has Board-approved policies in place to limit exposure to these risks and routinely evaluates their effectiveness and makes appropriate policy adjustments.

SaskPower is subject to extensive federal, provincial and local government regulations, all of which are subject to change. Failure to comply with rules and regulations pertaining to air quality, water quality, waste management, natural resources and health and safety may give cause to a number of sanctions. These may include fines, penalties, administrative costs and even stop work orders. Compliance with new laws or the revision or reinterpretation of existing laws may require our company to incur additional expenses.

SaskPower faces environmental risks as a result of changes in environmental regulations or exposures, particularly regarding CO_2 emissions for existing and new coal-fired generation. Proposed regulations, which would come into effect in 2015, will require additional capital investments in CO_2 capture and storage technologies and influence choices for generation options. SaskPower is collaborating with the Ministry of Environment on the terms of an equivalency agreement that would allow fleet-wide averaging of the federal requirements. In addition, SaskPower will experience increased political and public attention to environmental issues. This may lead to more legislation and higher compliance costs. SaskPower will be modeling generation scenarios to meet both compliance and electricity demand.

We manage regulatory risks by working with governments, regulators, and other stakeholders to ensure regulatory compliance and the resolution of any issues that may arise. Management believes that the necessary approvals have been obtained and are maintained for our existing operations, and that our company's business is conducted in accordance with applicable laws.

5. Change management and culture

Change management

Change management is a structured approach to moving individuals, teams and organizations from a current state to a desired future state. For an organization to realize the benefits of change, one of the requirements is that people accept or buy into the change. SaskPower has embarked on several key initiatives that will result in a transformation of how our company does business. In doing so, SaskPower may experience a culture that is resistant to change. For these transformations to be successful, communications strategies will need to evolve and our present and future workforce will need to be flexible in assignments, reporting lines and responsibilities.

Culture

Corporate culture is the set of attitudes, beliefs, values and norms that is shared among organizational members. Culture is created and maintained by leadership actions, as well as business policies, processes and procedures that influence employee and organizational behaviours. As SaskPower embraces the changes needed for the future, its corporate culture will need to change. Care will be needed to ensure the better qualities of its culture are preserved and reinforced while new attributes are added. A sound basis exists to deal with change, but it is an area where vigilance and management attention is required.

Work is underway to help employees understand the SaskPower strategic direction and how the work they do contributes to achieving the company's goals. Information gathered from employees and the executive will be put into an illustrative learning map to visually show the company's direction. In addition to completing two company tours in 2012, the President appeared in videos and published a blog encouraging dialogue and feedback from employees.

6. Workforce management

Risks relating to activities needed to maintain a productive workforce may impact our business as a result of changes in the workforce. Over the next 10 years, a significant number of core SaskPower employees will be eligible for retirement contributing to a period of challenging transition. Some additional challenges may arise from the following:

- Competition for talent
- Shortage of critical skills
- Reduced productivity due to turnover in positions
- Inability to complete critical work due to vacant positions
- Failure to maintain fair compensation with respect to market rate changes
- Failure to transfer knowledge from existing employees, leaving insufficient expertise

SaskPower is developing a proactive workforce strategy that includes targeted recruitment, succession planning and key training and apprenticeship programs to ensure we have the required skill sets for the future.

A major job evaluation project began in 2012 to simplify job descriptions and undertake a comprehensive market comparison of salaries to ensure SaskPower is offering comparable compensation with other companies. This will be completed in 2013.

7. Large projects

SaskPower has identified the need to invest significant amounts of capital in long-term projects to ensure continuing reliability; maintain, upgrade and expand infrastructure; and meet emerging environmental requirements. There is risk that large projects may not be completed at all, may be completed on materially different terms or timing than initially anticipated, or the intended benefits of the project may not be realized. In addition, public acceptance of new infrastructure projects is an integral part of achieving regulatory approvals.

Weather conditions, delays in obtaining or failure to obtain regulatory approvals, delays in obtaining key materials, labour difficulties, skills shortages or other events beyond SaskPower's control may influence the timing, costs and outcome of planned construction or expansion projects.

As SaskPower is currently working on several large infrastructure projects, our company faces risks associated with cost-overruns, schedule delays, and performance. We attempt to minimize these project delivery risks by:

- Regularly consulting with potentially affected stakeholders to increase understanding and foster public acceptance for projects
- Ensuring all projects are vetted by our Risk and Insurance Group so that risks have been properly identified and quantified, input assumptions are reasonable, and returns are realistically forecasted prior to executive and Board approvals
- Fixing the price and availability of the equipment, warranties, and source agreements as much as economically feasible prior to proceeding with the project
- Developing and following through with comprehensive plans that include critical paths identified, key delivery points, and backup plans
- Ensuring project closeouts so that any lessons learned from the project are incorporated into the next significant project

During this period of infrastructure renewal, we have established a target range of 60% to 75% for the debt ratio, which enables us to take on extra debt when heavy capital spending is required. In addition, SaskPower has a return on equity target of 8.5%, which is at the lower end of other Crown-owned and rate regulated utilities in Canada. SaskPower will use flexibility as needed when significant rate increases are required to finance infrastructure renewal.

In 2012, SaskPower made further progress on the completion of the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project to reduce GHG emissions. An agreement was signed with Cenovus to purchase the captured CO_2, reflecting a viable market for its use in enhanced oil recovery.

The SDR Program achieved completion of a successful AMI pilot project. Implementation will lead to enhanced customer service and outage management.

8. Stakeholder engagement

SaskPower stakeholders are individuals or groups who have an impact on our business, or who are affected by our activities, products or services. SaskPower interacts with a variety of stakeholders within the scope of our operations, including customers, business partners, employees, shareholders, governments, regulatory bodies, and contractors.

In 2012, SaskPower continued to work on strengthening stakeholder relationships through information and consultation processes and opportunity sharing. With the need for power in our province growing exponentially, open houses to gather public feedback on proposed new transmission lines and supporting infrastructure are becoming more common. The SaskPower Executive Outreach Program delivers timely information to community leaders across Saskatchewan regarding the Corporation's future generation plans, capital projects, system improvements, rate design and rationale, programs and services, and provides an opportunity to address local issues affecting that community. This initiative has been effective in improving our relationship with communities, building trust and enhancing our corporate reputation.

In 2012, SaskPower defined an Aboriginal Relations Strategic Plan for building strong relationships with the Aboriginal community that is focused on five key areas: business development, community engagement, community investment, employment and procurement. In addition to the strategic framework and key performance indicators, SaskPower is committed to moving internal initiatives forward and is working towards progressive aboriginal relations certification.

9. Fuel supply

Having sufficient fuel available when required for generation is essential to maintaining SaskPower's ability to meet the province's electricity requirements. A disruption in the Corporation's energy portfolio could adversely affect SaskPower's ability to meet electricity demand or its financial condition. SaskPower is exposed to increases in the cost of fuels through volume variances in the planned fuel mix, unplanned operational outages and maintenance, and increases in the respective fuel prices.

Our fuel supply planning process endeavours to take all possibilities into account, including input costs, generation options, smart grid technologies, regulatory changes, load projects, as well as DSM and demand response programs. SaskPower optimizes the natural gas and coal supply portfolios to operate SaskPower's power production facilities and PPAs. SaskPower manages the fuel supply, market and commodity price risk by:

- Ensuring contracts are in place for natural gas and coal security of supply at negotiated quantities, terms and prices
- Ensuring efficient coal handling and storage facilities are in place so that the coal being delivered can be processed in a timely and efficient manner
- Monitoring and maintaining coal specifications, carefully matching the specifications with the requirements of SaskPower's plants
- Contracting suitable pipeline market access and storage in Alberta and Saskatchewan to meet SaskPower's gas generation requirements
- Optimizing the fuel portfolio for the most efficient dispatch and use of assets leads to improved overall system efficiencies
- Mitigating the impact of market natural gas prices and focusing on asset optimization, which includes the use of storage and transportation service, physical purchases and financial hedges in accordance with the SaskPower Board-approved policy with a 10-year hedge time horizon
- Monitoring and expanding market opportunities to evolve natural gas optimization and undertake longer-term gas contracts

10. Safety

Safety for our employees is central to our operations. Working on or around high voltage equipment has inherent risk, as does work in confined spaces, around moving machinery, in high temperature and high pressure environments, and at heights or in other potentially dangerous circumstances. Poor safety performance can result in loss of productivity due to injury, accident investigation and low employee engagement. SaskPower has extensive policies, standards, procedures and controls in place to minimize the risk of a harmful contact by an employee, contractor, or a member of the public. This includes the maintenance of a SMS in compliance with the internationally recognized OHSAS 18001 specification.

SaskPower has established an educational resource and program to help inform the public of the hazards of power lines and delivers this information at public venues around the province.

In 2012, SaskPower once again undertook a comprehensive public safety program, which is largely driven by hazards identified as high risk. After surveys have indicated a heightened awareness of farm safety issues, the focus is now shifted to contractor and construction safety for people working on or near our facilities. SaskPower have partnered with the Saskatchewan Construction Safety Association to help enhance the safety message to construction workers and contactors.

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Report of Management

The consolidated financial statements of Saskatchewan Power Corporation (SaskPower; the Corporation) are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on management's best judgment, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to March 6, 2013. The financial information presented in the Management's Discussion & Analysis (MD&A) and elsewhere in this report is consistent with that in the consolidated financial statements.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable, and accurate, and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit & Finance Committee of the Board of Directors.

The Board of Directors, through the Audit & Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit & Finance Committee consists entirely of outside Directors. At regular meetings, the committee reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The financial statements and the Independent Auditor's Report have been reviewed by the Audit & Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit & Finance Committee, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The external auditor's responsibility is to express its opinion on whether the consolidated financial statements are fairly presented in accordance with International Financial Reporting Standards.

On behalf of management,

Robert Watson
President and Chief Executive Officer
March 6, 2013

Sandeep Kalra

Sandeep Kalra
Vice-president and Chief Financial Officer

Management's Report on Internal Control over Financial Reporting

I, Robert Watson, President and Chief Executive Officer of Saskatchewan Power Corporation, and I, Sandeep Kalra, Vice-president and Chief Financial Officer of Saskatchewan Power Corporation, certify the following:

(a) That we have reviewed the consolidated financial statements included in the annual report of Saskatchewan Power Corporation. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements included in the annual report, fairly present, in all material respects the financial condition, results of operations, and cash flows, as of December 31, 2012.

(b) That based on our knowledge, having exercised reasonable diligence, the consolidated financial statements included in the annual report of Saskatchewan Power Corporation do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

(c) That Saskatchewan Power Corporation is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and Saskatchewan Power Corporation has designed internal controls over financial reporting that are appropriate to the circumstances of Saskatchewan Power Corporation.

(d) That Saskatchewan Power Corporation conducted its assessment of the effectiveness of the Corporation's internal controls over financial reporting and, based on the results of this assessment, Saskatchewan Power Corporation can provide reasonable assurance that internal controls over financial reporting as of December 31, 2012, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

On behalf of management,

Robert Watson
President and Chief Executive Officer
March 6, 2013

Sandeep Kalra

Sandeep Kalra
Vice-president and Chief Financial Officer

Independent Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying consolidated financial statements of Saskatchewan Power Corporation, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Power Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
March 6, 2013
Regina, Saskatchewan

Consolidated statement of income

(in millions)

For the year ended December 31	2012	2011
Revenue		
Saskatchewan electricity sales	$ 1,687	$ 1,667
Exports	49	40
Net sales from electricity trading *(Note 4)*	14	14
Share of profit from equity accounted investees *(Note 17)*	12	11
Other revenue *(Note 5)*	100	105
	1,862	1,837
Expense		
Fuel and purchased power *(Note 6)*	513	485
Operating, maintenance and administration *(Note 7)*	612	575
Depreciation and amortization *(Note 8)*	316	290
Finance charges *(Note 9)*	200	197
Taxes *(Note 10)*	47	43
Other losses *(Note 11)*	27	8
	1,715	1,598
Income before the following	147	239
Unrealized market value adjustments *(Note 12)*	6	9
Net income	$ 153	$ 248

See accompanying notes

Consolidated statement of comprehensive income

(in millions)

For the year ended December 31	2012	2011
Net income	$ 153	$ 248
Other comprehensive income (loss)		
Share of other comprehensive income from equity accounted investees *(Note 17)*	–	1
Realized losses on derivatives designated as cash flow hedges	(2)	–
Unrealized losses on derivatives designated as cash flow hedges *(Note 24)*	(4)	–
Net actuarial losses on defined benefit pension plans *(Note 30)*	(33)	(143)
	(39)	(142)
Total comprehensive income	$ 114	$ 106

See accompanying notes

Consolidated statement of financial position

(in millions)

As at December 31	2012	2011
Assets		
Current assets		
Accounts receivable and unbilled revenue	$ 264	$ 236
Inventory *(Note 13)*	165	154
Prepaid expenses	7	6
Risk management assets *(Note 24)*	3	6
	439	402
Property, plant and equipment *(Note 14)*	6,030	5,387
Intangible assets *(Note 15)*	62	52
Debt retirement funds *(Note 16)*	390	353
Investments accounted for using equity method *(Note 17)*	81	77
Other assets *(Note 18)*	9	11
Total assets	$ 7,011	$ 6,282
Liabilities and equity		
Current liabilities		
Bank indebtedness	$ –	$ 6
Accounts payable and accrued liabilities	338	338
Accrued interest	52	49
Risk management liabilities *(Note 24)*	38	52
Short-term advances *(Note 19)*	763	251
Current portion of long-term debt *(Note 20)*	97	–
Current portion of finance lease obligations *(Note 21)*	5	3
	1,293	699
Long-term debt *(Note 20)*	2,816	2,707
Finance lease obligations *(Note 21)*	547	552
Employee benefits *(Note 30)*	340	315
Provisions *(Note 22)*	157	145
Total liabilities	5,153	4,418
Equity		
Retained earnings	1,204	1,204
Accumulated other comprehensive loss	(6)	–
Equity advances *(Note 23)*	660	660
Total equity	1,858	1,864
Total liabilities and equity	$ 7,011	$ 6,282

See accompanying notes

On behalf of the Board,

Joel Teal
Chair

Mick MacBean
Director

Consolidated statement of changes in equity

		Accumulated other comprehensive loss				
(in millions)	Retained earnings	Net gains (losses) – equity accounted investees	Net losses on derivatives designated as cash flow hedges	Net actuarial losses on defined benefit pension plans	Equity advances	**Total**
Equity						
Balance, January 1, 2011	$ 1,099	$ (1)	$ –	$ –	$ 660	**$ 1,758**
Net income	248	–	–	–	–	**248**
Other comprehensive income (loss)	–	1	–	(143)	–	**(142)**
Transfers to retained earnings	(143)	–	–	143	–	**–**
Dividends	–	–	–	–	–	**–**
Balance, December 31, 2011	**$ 1,204**	**$ –**	**$ –**	**$ –**	**$ 660**	**$ 1,864**
Net income	153	–	–	–	–	**153**
Other comprehensive income (loss)	–	–	(6)	(33)	–	**(39)**
Transfers to retained earnings	(33)	–	–	33	–	**–**
Dividends	(120)	–	–	–	–	**(120)**
Balance, December 31, 2012	**$ 1,204**	**$ –**	**$ (6)**	**$ –**	**$ 660**	**$ 1,858**

See accompanying notes

Consolidated statement of cash flows

(in millions)

For the year ended December 31	2012	2011
Operating activities		
Net income	$ 153	$ 248
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization *(Note 8)*	316	290
Finance charges *(Note 9)*	200	197
Other losses *(Note 11)*	27	8
Unrealized market value adjustments *(Note 12)*	(6)	(9)
Defined benefit pension plan contribution *(Note 30)*	–	(27)
Defined benefit pension plan income *(Note 30)*	(5)	(1)
Other benefit plans *(Note 30)*	(3)	(3)
Share of profit from equity accounted investees *(Note 17)*	(12)	(11)
	670	692
Net change in non-cash working capital *(Note 28)*	(36)	81
Interest paid	(245)	(230)
Cash provided by operating activities	389	543
Investing activities		
Property, plant and equipment additions	(922)	(575)
Intangible assets additions	(29)	(38)
Net (costs of removal) proceeds from disposal of assets	(7)	2
Distributions from equity accounted investees *(Note 17)*	8	6
Cash used in investing activities	(950)	(605)
Decrease in cash before financing activities	(561)	(62)
Financing activities		
Net proceeds from short-term advances	512	92
Proceeds from long-term debt *(Note 20)*	207	–
Dividends paid	(120)	–
Debt retirement fund instalments *(Note 16)*	(27)	(27)
Principal repayment of finance lease obligations	(3)	(2)
Realized losses on derivatives designated as cash flow hedges	(2)	–
Cash provided by financing activities	567	63
Increase in cash	6	1
Bank indebtedness, beginning of year	(6)	(7)
Bank indebtedness, end of year	$ –	$ (6)

See accompanying notes

Notes to the consolidated financial statements

1. Description of business

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially-owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act*. SaskPower's head office is located at 2025 Victoria Avenue in Regina, Saskatchewan, Canada, S4P 0S1.

By virtue of *The Crown Corporations Act, 1993*, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is not subject to federal and provincial income taxes.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

- Financial instruments that are accounted for according to the financial instrument categories defined in *Note 3(n)*.
- Provisions defined in *Note 3(h)*.
- Employee benefit plans accrued benefit obligations defined in *Note 3(o)*.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates are further described in the following summary of significant accounting policies and related notes:

- Electrical deliveries not yet billed at period-end and allowance for doubtful accounts *[Note 3(i)]*.
- Allowance for inventory obsolescence *[Notes: 3(c) and 13]*.
- Underlying estimates of useful lives and related depreciation and accumulated depreciation *[Notes: 3(d), 3(e), 8 and 14]*.
- Carrying amounts of provisions and underlying estimates of future cash flows *[Notes: 3(h) and 22]*.
- Fair value of financial instruments *[Notes: 3(n) and 24]*.
- Carrying amounts of employee benefits and underlying actuarial assumptions *[Notes: 3(o) and 30]*.

Areas of judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include:

- Identification of arrangements which contain a lease *[Notes: 3(m) and 21]*.
- Revenue recognition of customer contributions *[Notes: 3(i) and 5]*.

(e) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. In particular, the following new and amended standards which become effective for annual periods beginning on or after January 1, 2013:

IFRS 9, *Financial Instruments*

IFRS 9 was issued by the International Accounting Standards Board (IASB) on November 12, 2009, and will replace International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within net income. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2015. SaskPower is reviewing the standard to determine the potential impact, if any, on its consolidated financial statements. The Corporation does not have any plans to early adopt the new standards.

IFRS 10, *Consolidated Financial Statements* and IAS 27, *Separate Financial Statements*

IFRS 10 and IAS 27 were issued by the IASB on May 12, 2011, and together will replace IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included with the consolidated financial statements of the parent company. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements. The standards are to be applied retrospectively, in most circumstances, and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 10 and IAS 27 will have no material impact on its consolidated financial statements.

IFRS 11, *Joint Arrangements*

IFRS 11 was issued by the IASB on May 12, 2011, and will replace IAS 31, *Interests in Joint Ventures*. IFRS 11 requires a party to a joint arrangement to determine the type of arrangement, either a joint operation or a joint venture, by assessing its rights and obligations arising from the arrangement. The standards are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has determined that upon adoption of IFRS 11 its investment in the Cory Cogeneration Station and Cory Cogeneration Funding Corporation joint arrangements which meet the definition of joint operations, will be accounted for using the proportionate consolidation method. The adoption of the IFRS 11 will have no material impact on the consolidated financial statements.

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12 was issued by the IASB on May 12, 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 12 will have no material impact on its consolidated financial statements. The new disclosure requirements will be provided in the 2013 consolidated financial statements.

IFRS 13, *Fair Value Measurement*

IFRS 13 was issued by the IASB on May 12, 2011. IFRS 13 defines fair value, sets out a framework for measuring it and introduces consistent requirements for disclosures on fair value measurements. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IFRS 13 will have no material impact on its consolidated financial statements. The new disclosure requirements will be provided in the 2013 consolidated financial statements.

Amendments to IAS 1, *Presentation of Financial Statements*

An amended version of IAS 1 was issued by the IASB on June 16, 2011. The amendments to IAS 1 require items within other comprehensive income that may be reclassified to profit or loss to be grouped together. The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after July 1, 2012. SaskPower has reviewed the new standards and determined the adoption of the amendments to IAS 1 will have no material impact on its consolidated financial statements. The new presentation requirements will be disclosed in the 2013 consolidated financial statements.

Amendments to IAS 19, *Employee Benefits*

An amended version of IAS 19 was issued by the IASB on September 16, 2011. The revised IAS 19 eliminates the option to defer the recognition of gains and losses (the 'corridor method'); streamlines the presentation of changes in asset and liabilities arising from defined benefit plans; and enhances the disclosure requirements for defined benefit plans. The amendments will require remeasurements (actuarial gains and losses and the actual return on plan assets) to be recognized immediately in other comprehensive income and all current service costs and interest income (expense) to be recognized immediately in net income. Interest income (expense) will be calculated by applying the discount rate to the net defined benefit asset (liability). The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of the amendments to IAS 19 will have no material impact on its consolidated financial statements.

Amendments to IAS 28, *Investments in Associates and Joint Ventures*

An amended version of IAS 28 was issued by the IASB on May 12, 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The standards are to be applied prospectively and will be effective for annual periods beginning on or after January 1, 2013. SaskPower has reviewed the new standards and determined the adoption of IAS 28 will have no material impact on its consolidated financial statements.

Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* and IFRS 7, *Disclosures*

On December 16, 2011, the IASB issued amendments to IAS 32 and IFRS 7 as part of its offsetting project. The amendments clarify certain items regarding offsetting financial assets and financial liabilities and also address common disclosure requirements. The amendments are to be applied retrospectively and will be effective for annual periods beginning on or after January 1, 2013, for IFRS 7 and January 1, 2014, for IAS 32. SaskPower has reviewed the new standards and determined the adoption of the amendments to IFRS 7 and IAS 32 will have no material impact on its consolidated financial statements.

3. Significant accounting policies

(a) Basis of consolidation

i) Subsidiaries

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries with all significant inter-company transactions and balances being eliminated.

Separate audited financial statements are prepared annually for its operating wholly-owned subsidiaries: NorthPoint Energy Solutions Inc. (NorthPoint) and Power Greenhouses Inc. (SaskPower Shand Greenhouse). SaskPower International Inc. (wholly-owned subsidiary) has no active operations beyond its joint venture interests in Cory Cogeneration Station and Cory Cogeneration Funding Corporation and its investment in MRM Cogeneration Station over which it exerts significant influence.

ii) Associates and jointly controlled entities

Associates are those entities in which the Corporation has significant influence, but not control, over strategic financial and operating decisions. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted for investees) and are recognized initially at cost. The consolidated financial statements include the Corporation's share of the total comprehensive income and equity movements of equity accounted for investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases *(Note 17)*.

(b) Cash and cash equivalents (bank indebtedness)

Cash and cash equivalents includes cash, bank indebtedness and short-term investments that have a maturity date of 90 days or less from the date of acquisition. These investments are carried at fair value.

(c) Inventory

Maintenance materials, supplies, natural gas, coal and other fuel inventory are recorded at the lower of weighted average cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. Replacement cost is used as management's best estimate of the net realizable value for maintenance materials, supplies, coal and other fuel inventory. Net realizable value for natural gas inventory is determined using the near month AECO C natural gas market prices as appropriate. Inventories are written down to net realizable value on an item by item basis.

In establishing the appropriate provision for inventory obsolescence, management estimates the likelihood that inventory on hand will become obsolete due to changes in technology. Maintenance materials and supplies are charged to inventory when purchased and expensed or capitalized when used. Natural gas, coal and other fuel inventory are charged to inventory when purchased and expensed as consumed or sold *(Note 13)*.

(d) Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost less accumulated depreciation and accumulated provisions for impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, services and direct labour. Borrowing costs associated with major capital and development projects that are six months or longer in duration are capitalized during the construction period at the weighted average cost of borrowings. Assets under construction are recorded as in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

Costs are capitalized provided there is reasonable certainty they will provide benefits into the future. Significant renewals and enhancements to existing assets are capitalized only if the useful life of the asset is increased; physical output, service capacity or quality is improved above original design standards; or operating costs are reduced by a substantial and quantifiable amount that can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are expensed as incurred *(Note 14)*.

When property, plant and equipment are disposed of or retired, the related costs less accumulated depreciation are de-recognized. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds less costs of removal and the carrying amount of the asset. The gain or loss on asset disposals and retirements is recognized in profit or loss as other losses (gains) *(Note 11)*.

Assets held under finance leases are initially recognized at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recorded as a finance lease obligation *(Note 21)*.

(e) Depreciation

Depreciation is recognized on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Depreciation commences when the property, plant and equipment is ready for its intended use. Land is not depreciated. The estimated useful life of property, plant and equipment is based on manufacturers' guidance, past experience and future expectations regarding the potential for technical obsolescence. Their estimated useful lives are reviewed annually and any changes are applied prospectively.

Following the completion of an internal depreciation study, the estimated useful lives of certain assets were changed. The change in estimate was applied prospectively, effective January 1, 2012, and resulted in a $2 million increase to depreciation expense in 2012.

The estimated useful lives of the major classes of property, plant and equipment are:

Asset class	Estimated useful lives (years)
Generation	5 – 100
Transmission	3 – 55
Distribution	3 – 40
Other	4 – 60

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term *(Note 8)*.

(f) Intangible assets

The Corporation's only identifiable intangible asset is software. Software is recorded at cost less accumulated amortization and accumulated provisions for impairment. Software costs include the cost of externally purchased software packages and for internally developed programs, related external and direct labour costs. Maintenance of existing software programs is expensed as incurred *(Note 15)*.

Amortization is calculated on a straight-line basis over five years — the estimated useful life of the Corporation's software programs. Estimated useful lives of intangible assets are reviewed annually and any changes are applied prospectively *(Note 8)*.

(g) Impairment of assets

At each reporting date, the Corporation evaluates its property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Factors, which could indicate an impairment exists, include significant changes in the Corporation's strategy or underperformance of assets relative to projected future operating results. An impairment is recognized when the carrying amount of an asset or cash generating unit (CGU) exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the future cash flows to be derived from a CGU. At the reporting date, the Corporation determined that there was no impairment of value to its long-lived assets and therefore no write-down was required.

(h) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the discount on provisions is recognized in profit or loss as finance expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

i) Decommissioning provisions

A decommissioning provision is a legal or constructive obligation associated with the decommissioning of a long-lived asset. The Corporation recognizes decommissioning provisions in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes provisions to decommission coal, natural gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. SaskPower also recognizes provisions for the decommissioning of assets containing polychlorinated biphenyls (PCBs) in excess of existing federal regulations.

The fair value of the estimated decommissioning costs is recorded as a provision with an offsetting amount capitalized and included as part of property, plant and equipment. The decommissioning provisions are increased periodically for the passage of time by calculating interest expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows including the method and timing of decommissioning and estimates of future inflation. Decommissioning provisions are periodically reviewed and any changes are recognized as an increase or decrease in the carrying amount of the obligation and the related asset *(Note 22)*.

ii) Environmental remediation liabilities

A provision for environmental remediation is accrued when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations and remediation at identified sites. These provisions are based on management's best estimate considering current environmental laws and regulations and are recorded at fair value. The Corporation reviews its estimates of future environmental expenditures on an ongoing basis *(Note 22)*.

iii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract *(Note 22)*.

(i) Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business. Revenue is recognized when it is probable that future economic benefits will flow to the Corporation and these benefits can be measured reliably.

i) Electricity

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel with final approval by provincial cabinet. Saskatchewan electricity sales and exports are recognized upon delivery to the customer and include an estimate of electrical deliveries not yet billed at period-end. The estimated unbilled revenue is based on several factors, including estimated consumption by customer, applicable customer rates and the number of days between the last billing date and the end of the period.

Electricity trading revenues are reported on a net basis upon delivery of electricity to the customers and receipt of electricity purchased from external parties. Electricity trading contracts are recorded at fair value *(Notes: 4 and 24)*.

ii) Customer contributions

Customer contributions are funds received from certain customers toward the costs of service extensions. These contributions are recognized immediately in profit or loss as other revenue when the related property, plant and equipment is available for use *(Note 5)*.

iii) Other

Wind power incentives received from the Government of Canada for electricity generated from the Centennial and Cypress Wind Power Facilities are recognized as other revenue upon delivery of the electricity into the SaskPower grid. Other revenue also includes gas and electrical inspections and fly ash sales which are recorded upon delivery of the related good or service *(Note 5)*.

(j) Government grants

Government grants are recognized initially as deferred revenue when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in profit or loss as an offset against operating, maintenance and administration (OM&A) in the same period in which the expenses are recognized *(Note 7)*. Grants that compensate the Corporation for the cost of an asset are netted against the capitalized asset costs and recognized in profit or loss over the useful life of the asset.

(k) Finance charges

Finance expense is comprised of interest expense on short-term and long-term borrowings, unwinding the discount on provisions, and finance costs related to leased assets. Interest expense is recognized in profit or loss, using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognized as a finance expense as the costs accrue *(Note 9)*.

Finance income is comprised of earnings on debt retirement funds. Finance income is recognized in profit or loss as earned *(Note 9)*.

(l) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars using the rate of exchange in effect at the reporting date. Revenues and expenses are translated at the rate prevailing at the transaction date. Foreign currency translation gains and losses are included in profit or loss in the period in which they arise.

(m) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. The Corporation has assessed its arrangements to determine whether they contain a lease. Certain take-or-pay power purchase agreements (PPAs), which in management's judgment give SaskPower the exclusive right to use specific production assets, meet the definition of a lease. These arrangements have been classified as finance leases.

Assets held under finance leases are initially recognized at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recorded as a finance lease obligation. Each lease payment is allocated between the liability and interest so as to achieve a constant rate on the finance balance outstanding. The interest component is included in finance expense.

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

All other transactions in which SaskPower is the lessee are classified as operating leases. Payments made under operating leases are expensed over the term of the lease *(Notes: 14 and 21)*.

(n) Financial instruments

i) Classification and measurement

SaskPower classifies its financial instruments into one of the following categories: financial instruments at fair value through profit or loss; held-to-maturity; loans and receivables; and other liabilities *(Note 24)*. All financial instruments are measured at fair value on initial recognition and recorded on the consolidated statement of financial position. Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as fair value through profit or loss, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial instruments classified as fair value through profit or loss are subsequently measured at fair value, with changes in fair value recognized in the consolidated statement of income in unrealized market value adjustments. Financial instruments classified as held-to-maturity; loans and receivables; and other liabilities are subsequently measured at amortized cost using the effective interest method, less any impairment.

Derivative financial instruments, including natural gas and electricity contracts are recognized as a financial asset or a financial liability on the trade date. All derivative financial instruments are classified as fair value through profit or loss and recorded at fair value on the consolidated statement of financial position as risk management assets and liabilities. Subsequent changes in fair value of these derivative financial instruments, with the exception of the effective portion of derivatives designated as cash flow hedges, are recognized in the consolidated statement of income in unrealized market value adjustments.

Certain commodity contracts for the physical purchase of natural gas qualify as own-use contracts. SaskPower entered into these contracts for the purpose of physical receipt of the natural gas in accordance with its own expected usage requirements for the generation of electricity. As such, these non-financial derivative contracts are not recorded at fair value on the consolidated statement of financial position; rather, the contracts are accounted for as a purchase at the time of delivery.

ii) Hedges

In order to qualify for hedge accounting, the Corporation designates derivatives as hedges through formal documentation of all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking the hedge transaction. This process includes linking derivatives to specific assets and liabilities or to specific firm commitments or forecast transactions. The Corporation formally assesses both at the hedge's inception and on an ongoing basis, whether the derivatives used are highly effective in offsetting changes in cash flows of the hedged item and the timing of the cash flows is similar.

The Corporation enters into bond forward agreements to hedge exposures to anticipated changes in interest rates on forecasted issuances of debt. The Corporation has chosen to designate these contracts as cash flow hedges. As such, the effective portion of the changes in fair value related to the derivative financial instruments have been recognized in other comprehensive income, with the fair value being recognized as risk management assets and liabilities on the consolidated statement of financial position. Ineffective portion of hedges are recorded in profit or loss immediately. When the derivatives expire upon the issuance of debt, the resulting gain or loss recorded in accumulated other comprehensive income is amortized to profit or loss over the term of the debt. If no debt is issued, the gain or loss is recognized in profit or loss immediately.

iii) Embedded derivatives

As at December 31, 2012, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives that are required to be valued separately.

iv) Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. SaskPower's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Corporation has classified the fair value of its financial instruments as level 1, 2, or 3 *(Note 24)* as defined below:

Level 1 – Fair values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Corporation has immediate access. The fair values for cash and cash equivalents and bank indebtedness were based on carrying value as an approximation of market value due to the short time frame to maturity.

Level 2 – Fair values are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. The debt retirement funds are valued by the Government of Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

Natural gas fixed price swap contract values are calculated using internal discounted cash flow models that rely on forward AECO C natural gas pricing provided by independent reference dealers. The contracted cash flows are discounted using observable yield curves. Natural gas options (two-way collars) are valued using over-the-counter or end-market pricing received from the reference dealer.

Electricity contract fair values are determined using independent pricing information from external market providers.

Bond forward agreement fair values are determined using internal discounted cash flow models that rely on forward Government of Canada bond yields provided by independent reference dealers. The contracted cash flows are discounted using observable yield curves.

Level 3 – Fair values are determined based on inputs for the asset or liability that are not based on observable market data. The finance lease obligations are valued using internal cash flow models based on contracted pricing in the Corporation's PPAs. The contracted cash flows are discounted using the Government of Saskatchewan bond yields adjusted for a negotiated risk premium.

(o) Employee benefits

The Corporation has a defined contribution pension plan, defined benefit pension plans, and other benefit plans that provide retirement benefits for its employees.

i) Defined contribution pension plan

A defined contribution pension plan is a post-employment benefit under which SaskPower pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution pension plan are recognized in OM&A expense in the period during which services are rendered by employees *(Note 30)*.

ii) Defined benefit pension plans

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution pension plan. The Corporation's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for service in the current and prior periods. The obligation is discounted to determine its present value. Any unrecognized past service costs are added to the obligation, while the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Corporation recognizes all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income in the period in which they arise *(Note 30)*.

iii) Other benefit plans

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. SaskPower's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

The Corporation also provides lifetime superannuation allowances and bridge allowances to employees who chose to retire under various early retirement options. The cost of these benefits is actuarially determined by calculating the present value of all future benefit entitlements *(Note 30)*.

4. Net sales from electricity trading

(in millions)		**2012**		2011
Electricity trading revenue	**$**	**29**	$	41
Electricity trading costs		**(15)**		(27)
	$	**14**	$	14

5. Other revenue

(in millions)		**2012**		2011
Customer contributions	**$**	**51**	$	55
Fly ash sales		**7**		8
Gas and electrical inspections		**17**		14
Wind power production incentives		**6**		6
Miscellaneous revenue		**19**		22
	$	**100**	$	105

6. Fuel and purchased power

(in millions)	2012	2011
Coal	$ 222	$ 219
Gas	214	196
Imports	31	24
Hydro	19	20
Wind	9	9
Other	18	17
	$ 513	$ 485

Gas costs include the fuel charges associated with the electricity generated from SaskPower-owned gas-fired facilities and the cost of fuel related to PPAs with the Cory Cogeneration Station, Meridian Cogeneration Station and Spy Hill Generating Station. Imports represent electricity purchased from suppliers that produce power outside Saskatchewan. Wind includes the cost of electricity obtained through SaskPower's PPA with the SunBridge Wind Power and Red Lily Wind Power Facilities. Other includes the cost of electricity obtained through PPAs with Prince Albert Pulp Inc. and NRGreen Heat Recovery Facilities and the cost of demand response programs.

7. Operating, maintenance and administration (OM&A)

(in millions)	2012	2011
Salaries and benefits	$ 275	$ 260
Employee long-term benefits *(Note 30)*	20	21
External services	205	213
ICCS grant funding	–	(30)
Materials and supplies	36	36
Other	76	75
	$ 612	$ 575

8. Depreciation and amortization

(in millions)	2012	2011
Depreciation expense *(Note 14)*	$ 298	$ 280
Amortization of intangible assets *(Note 15)*	18	10
	$ 316	$ 290

9. Finance charges

(in millions)		2012		2011
Finance expense				
Interest on long-term debt	**$**	**175**	$	174
Interest on finance leases		**68**		54
Interest on short-term advances		**5**		1
Unwinding of discount on provisions *(Note 22)*		**5**		5
Interest capitalized		**(30)**		(12)
Amortization of debt premium net of discounts *(Note 20)*		**(1)**		(1)
		222		221
Finance income				
Debt retirement fund earnings *(Note 16)*		**(22)**		(24)
		(22)		(24)
	$	**200**	$	197

10. Taxes

(in millions)		2012		2011
Grants-in-lieu of taxes to 13 cities	**$**	**21**	$	20
Saskatchewan corporate capital tax		**26**		23
	$	**47**	$	43

11. Other losses

(in millions)		2012		2011
Net losses on asset disposals and retirements	**$**	**15**	$	3
Cost of removal of assets on disposal		**9**		2
Environmental provisions		**3**		3
	$	**27**	$	8

12. Unrealized market value adjustments

(in millions)		2012		2011
Natural gas contracts *(Note 24)*	**$**	**19**	$	(2)
Natural gas inventory revaluation *(Note 13)*		**3**		(6)
Electricity contracts *(Note 24)*		**(4)**		6
Debt retirement funds *(Note 16)*		**(12)**		11
	$	**6**	$	9

13 Inventory

(in millions)	December 31 2012	December 31 2011
Maintenance materials and supplies	**$ 149**	$ 136
Allowance for obsolescence	**(8)**	(8)
	141	128
Natural gas	**14**	19
Coal	**11**	11
Other fuel	**2**	2
	168	160
Unrealized natural gas market revaluation	**(3)**	(6)
	$ 165	$ 154

During the year, $279 million (2011 – $267 million) of natural gas, coal and other fuel inventory and $190 million (2011 – $138 million) of maintenance materials and supplies were consumed. There was a provision made to write-down inventory by $1 million (2011 – $1 million) offset by $1 million (2011 – $1 million) in obsolete inventory that was written-off against the provision during 2012.

14 Property, plant and equipment

(in millions)	Generation	Leased assets	Transmission	Distribution	Other	Construction in progress	Total
Cost or deemed cost							
Balance, January 1, 2011	$ 4,133	$ 388	$ 916	$ 2,491	$ 482	$ 251	**$ 8,661**
Additions	131	145	50	182	46	625	**1,179**
Disposals and/or retirements	(11)	–	–	(13)	(11)	–	**(35)**
Transfers	–	–	–	–	–	(428)	**(428)**
Balance, December 31, 2011	**$ 4,253**	**$ 533**	**$ 966**	**$ 2,660**	**$ 517**	**$ 448**	**$ 9,377**
Additions	208	–	95	208	60	981	**1,552**
Disposals and/or retirements	(30)	–	(4)	(19)	(9)	–	**(62)**
Transfers	–	–	–	–	(6)	(589)	**(595)**
Balance, December 31, 2012	**$ 4,431**	**$ 533**	**$ 1,057**	**$ 2,849**	**$ 562**	**$ 840**	**$ 10,272**
Accumulated depreciation							
Balance, January 1, 2011	$ 1,966	$ 143	$ 389	$ 1,051	$ 189	$ –	**$ 3,738**
Depreciation expense	130	17	23	80	30	–	**280**
Disposals and/or retirements	(9)	–	–	(11)	(8)	–	**(28)**
Transfers	–	–	–	–	–	–	**–**
Balance, December 31, 2011	**$ 2,087**	**$ 160**	**$ 412**	**$ 1,120**	**$ 211**	**$ –**	**$ 3,990**
Depreciation expense	131	21	26	85	35	–	**298**
Disposals and/or retirements	(21)	–	(1)	(15)	(8)	–	**(45)**
Transfers	–	–	–	–	(1)	–	**(1)**
Balance, December 31, 2012	**$ 2,197**	**$ 181**	**$ 437**	**$ 1,190**	**$ 237**	**$ –**	**$ 4,242**
Net book value							
Balance, December 31, 2011	**$ 2,166**	**$ 373**	**$ 554**	**$ 1,540**	**$ 306**	**$ 448**	**$ 5,387**
Balance, December 31, 2012	**$ 2,234**	**$ 352**	**$ 620**	**$ 1,659**	**$ 325**	**$ 840**	**$ 6,030**

During the year, $30 million (2011 – $12 million) of interest costs were capitalized at the weighted average cost of borrowings rate of 6.20% (2011 – 6.00%).

15. Intangible assets

(in millions)		Software
Cost		
Balance, January 1, 2011	$	135
Additions		38
Disposals and/or retirements		(5)
Balance, December 31, 2011	**$**	**168**
Additions		23
Disposals and/or retirements		–
Transfers		6
Balance, December 31, 2012	**$**	**197**
Accumulated amortization		
Balance, January 1, 2011	$	111
Amortization expense		10
Disposals and/or retirements		(5)
Balance, December 31, 2011	**$**	**116**
Amortization expense		18
Disposals and/or retirements		–
Transfers		1
Balance, December 31, 2012	**$**	**135**
Net book value		
Balance, December 31, 2011	**$**	**52**
Balance, December 31, 2012	**$**	**62**

16. Debt retirement funds

(in millions)		
Debt retirement funds		
Balance, January 1, 2011	$	291
Debt retirement fund instalments		27
Debt retirement fund earnings		24
Debt retirement fund market value gains (losses)		11
Balance, December 31, 2011	**$**	**353**
Debt retirement fund instalments		27
Debt retirement fund earnings		22
Debt retirement fund market value gains (losses)		(12)
Balance, December 31, 2012	**$**	**390**

Under conditions attached to certain advances from the Government of Saskatchewan's General Revenue Fund, the Corporation is required to pay annually into debt retirement funds administered by the Government of Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2012, scheduled debt retirement fund instalments for the next five years are as follows:

(in millions)		2013		2014		2015		2016		2017
Debt retirement fund instalments	$	27	$	27	$	28	$	28	$	28

17. Investments accounted for using equity method

(in millions)	MRM	Cory	Total
Investments accounted for using equity method			
Balance, January 1, 2011	$ 31	$ 40	**$ 71**
Profit (loss)	6	5	**11**
Other comprehensive income (loss)	1	–	**1**
Distributions	(2)	(4)	**(6)**
Balance, December 31, 2011	**$ 36**	**$ 41**	**$ 77**
Profit (loss)	5	7	**12**
Other comprehensive income (loss)	–	–	**–**
Distributions	(4)	(4)	**(8)**
Balance, December 31, 2012	**$ 37**	**$ 44**	**$ 81**

MRM Cogeneration Station (MRM)

The Corporation has a 30% ownership interest in the MRM Cogeneration Station. The 172-megawatt (MW) natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta.

Cory Cogeneration Station and Cory Cogeneration Funding Corporation (Cory)

The Corporation holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-MW natural gas-fired cogeneration plant (Cory Cogeneration Station) near Saskatoon, Saskatchewan. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year PPA. During the year, the cost of fuel, OM&A expense, capacity and interest payments made to the Cory Cogeneration Station totaled $44 million (2011 – $41 million).

The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation (CCFC). CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC acts as agents for the Owners by receiving revenues, disbursing costs (including debt service) and distributing proceeds to the Owners.

The Corporation's interest in the MRM and Cory investments is summarized below:

	As at December 31, 2011		
(in millions)	**MRM**	**Cory**	**Total**
Statement of financial position			
Current assets	$ 7	$ 5	**$ 12**
Non-current assets	58	118	**176**
Current liabilities	(8)	(5)	**(13)**
Non-current liabilities	(21)	(77)	**(98)**
Investments accounted for using equity method	**$ 36**	**$ 41**	**$ 77**

	As at December 31, 2012		
(in millions)	**MRM**	**Cory**	**Total**
Statement of financial position			
Current assets	$ 7	$ 5	**$ 12**
Non-current assets	55	116	**171**
Current liabilities	(8)	(5)	**(13)**
Non-current liabilities	(17)	(72)	**(89)**
Investments accounted for using equity method	**$ 37**	**$ 44**	**$ 81**

(in millions)	For the year ended December 31, 2011 MRM	Cory	Total
Statement of income			
Revenue	$ 18	$ 19	**$ 37**
Expense	(12)	(14)	**(26)**
Profit (loss)	**$ 6**	**$ 5**	**$ 11**

(in millions)	For the year ended December 31, 2012 MRM	Cory	Total
Statement of income			
Revenue	$ 15	$ 21	**$ 36**
Expense	(10)	(14)	**(24)**
Profit (loss)	**$ 5**	**$ 7**	**$ 12**

18. Other assets

(in millions)	**December 31 2012**	December 31 2011
Long-term coal supply agreements	**$ 6**	$ 7
Investment	**1**	1
Other long-term receivables	**2**	3
	$ 9	$ 11

Long-term coal supply agreements

This includes prepaid amounts made in accordance with long-term coal supply agreements. The prepaid amount is amortized on a straight-line basis over the period of benefit.

Investment

This represents an investment in the Master Asset Vehicle II (MAVII) instrument. The investment is recorded at its estimated fair value at December 31, 2012 *(Note 24)*.

19. Short-term advances

(in millions)	**December 31 2012**	December 31 2011
Short-term advances	**$ 763**	$ 251

The short-term advances are due to the Government of Saskatchewan's General Revenue Fund. As at December 31, 2012, the advances have interest rates ranging from 0.997% to 0.999% and mature between January 2 and April 3, 2013. As at December 31, 2011, the advances had interest rates ranging from 0.91% to 1.00% and matured in January 2012.

20. Long-term debt

(in millions)	
Advances from the Government of Saskatchewan's General Revenue Fund	
Balance, January 1, 2011	$ 2,708
Issues during the period	–
Repayments during the period	–
Amortization of debt premium net of discounts	(1)
Balance, December 31, 2011	**$ 2,707**
Issues during the period	207
Repayments during the period	–
Amortization of debt premium net of discounts	(1)
	$ 2,913
Less: current portion of long-term debt	(97)
Balance, December 31, 2012	**$ 2,816**

Advances from the Government of Saskatchewan's General Revenue Fund (in millions)

Date of issue	Date of maturity	Effective interest rate (%)	Coupon rate (%)	Par value	Unamortized premium (discount)	Outstanding amount
July 20, 1993	July 15, 2013	8.63	7.81	$ 97	$ –	$ 97
December 20, 1990	December 15, 2020	11.23	9.97	129	(1)	128
February 4, 1992	February 4, 2022	9.27	9.60	240	5	245
July 21, 1992	July 15, 2022	10.06	8.94	256	(1)	255
May 30, 1995	May 30, 2025	8.82	8.75	100	(1)	99
August 8, 2001	September 5, 2031	6.49	6.40	200	(2)	198
January 15, 2003	September 5, 2031	5.91	6.40	100	6	106
May 12, 2003	September 5, 2033	5.90	5.80	100	(1)	99
January 14, 2004	September 5, 2033	5.68	5.80	200	3	203
October 5, 2004	September 5, 2035	5.50	5.60	200	3	203
February 15, 2005	March 5, 2037	5.09	5.00	150	(2)	148
May 6, 2005	March 5, 2037	5.07	5.00	150	(1)	149
February 24, 2006	March 5, 2037	4.71	5.00	100	4	104
March 6, 2007	June 1, 2040	4.49	4.75	100	4	104
April 2, 2008	June 1, 2040	4.67	4.75	250	3	253
December 19, 2008	June 1, 2040	4.71	4.71	100	–	100
September 8, 2010	June 1, 2040	4.27	4.75	200	15	215
November 7, 2012	February 3, 2042	3.22	3.40	200	7	207
				$ 2,872	**$ 41**	**$ 2,913**

As at December 31, 2012, scheduled principal debt retirement requirements for the next five years are as follows:

(in millions)	**2013**	**2014**	**2015**	**2016**	**2017**
Principal debt repayments	$ 97	$ –	$ –	$ –	$ –

Under conditions attached to certain advances from the Government of Saskatchewan's General Revenue Fund, the Corporation is required to pay annually into debt retirement funds administered by the Government of Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding *(Note 16)*.

21. Finance lease obligations

(in millions)	December 31 2012	December 31 2011
Total future minimum lease payments	**$ 1,368**	$ 1,439
Less: future finance charges on finance leases	**(816)**	(884)
Present value of finance lease obligations	**$ 552**	$ 555
Less: current portion of finance lease obligations	**(5)**	(3)
	$ 547	$ 552

As at December 31, 2012, scheduled future minimum lease payments and the present value of finance lease obligations are as follows:

(in millions)	1 year	1 - 5 years	More than 5 years
Future minimum lease payments	$ 72	$ 305	$ 991
Present value of finance lease obligations	5	46	501

22. Provisions

(in millions)	Decommissioning	Environmental remediation	Onerous contracts	Total
Provisions				
Balance, January 1, 2011	$ 82	$ 36	$ 1	**$ 119**
Charged to income:				
New obligations	1	–	–	**1**
Change in discount rate	1	1	–	**2**
Unwinding of discount	3	2	–	**5**
Capitalized to property, plant and equipment:				
Change in discount rate	18	–	–	**18**
Settled during the period	–	–	–	**–**
Balance, December 31, 2011	**$ 105**	**$ 39**	**$ 1**	**$ 145**
Charged to income:				
New obligations	1	–	–	**1**
Change in discount rate	1	1	–	**2**
Unwinding of discount	4	1	–	**5**
Capitalized to property, plant and equipment:				
New obligations	2	–	–	**2**
Change in discount rate	3	–	–	**3**
Settled during the period	–	–	(1)	**(1)**
Balance, December 31, 2012	**$ 116**	**$ 41**	**$ –**	**$ 157**

Decommissioning provisions

SaskPower estimates the undiscounted amount of cash flows required for decommissioning is approximately $224 million, which will be incurred between 2013 and 2043. The majority of these costs will be incurred between 2036 and 2043. Rates, based on the Government of Saskatchewan bond yields, between 1.79% and 3.25% were used to calculate the carrying values of the provisions. No funds have been set aside by the Corporation to settle the decommissioning provisions.

Environmental remediation liabilities

Environmental remediation liabilities represent expected environmental expenditures related to present or past activities of the Corporation. SaskPower estimates the undiscounted amount of cash flows required for environmental remediation is approximately $43 million, which will be incurred by 2015. A rate, based on the Government of Saskatchewan 5-year bond yield, of 1.79% was used to calculate the carrying value of the provisions. No funds have been set aside by the Corporation to settle the environmental remediation liabilities.

23. Equity advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

24. Financial instruments

			December 31, 2012		December 31, 2011	
(in millions)			Asset (liability)		Asset (liability)	
Financial instruments	**Classification**[4]	**Level**[5]	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets						
Accounts receivable and unbilled revenue	L&R[2]	N/A	**$ 264**	**$ 264**	$ 236	$ 236
Debt retirement funds	FVTPL[1]	2	**390**	**390**	353	353
Other assets - investment	FVTPL[1]	3	**1**	**1**	1	1
Financial liabilities						
Bank indebtedness	FVTPL[1]	1	**$ –**	**$ –**	$ (6)	$ (6)
Accounts payable and accrued liabilities	OL[3]	N/A	**(338)**	**(338)**	(338)	(338)
Accrued interest	OL[3]	N/A	**(52)**	**(52)**	(49)	(49)
Short-term advances	OL[3]	N/A	**(763)**	**(763)**	(251)	(251)
Long-term debt	OL[3]	2	**(2,913)**	**(3,909)**	(2,707)	(3,717)
Finance lease obligations	OL[3]	3	**(552)**	**(652)**	(555)	(643)

1. FVTPL – Fair value through profit or loss.

2. L&R – Loans and receivables.

3. OL – Other liabilities.

4. The Corporation has not classified any of its financial instruments as held-to-maturity.

5. Fair values are determined using a fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Not applicable (N/A) – Financial instruments – including accounts receivable and unbilled revenue; accounts payable and accrued liabilities; accrued interest and short-term advances – are carried at values which approximate fair value.

Risk management assets and liabilities

			December 31, 2012		December 31, 2011	
(in millions)	Classification[4]	Level[5]	Asset	Liability	Asset	Liability
Natural gas contracts						
Two-way collars	FVTPL[1]	2	$ –	$ –	$ –	$ –
Fixed price swap instruments	FVTPL[1]	2	2	(31)	–	(48)
Forward agreements	FVTPL[1]	2	1	(2)	–	(1)
Electricity contracts						
Contracts for differences	FVTPL[1]	2	–	–	6	(2)
Forward agreements	FVTPL[1]	2	–	(1)	–	(1)
Interest rate risk management						
Bond forward agreements	FVTPL[1]	2	–	(4)	–	–
			$ 3	$ (38)	$ 6	$ (52)

1. FVTPL – Fair value through profit or loss.

2. L&R – Loans and receivables.

3. OL – Other liabilities.

4. The Corporation has not classified any of its financial instruments as held-to-maturity.

5. Fair values are determined using a fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Not applicable (N/A) – Financial instruments – including accounts receivable and unbilled revenue; accounts payable and accrued liabilities; accrued interest and short-term advances – are carried at values which approximate fair value.

Cash flow hedges

The Corporation uses bond forward agreements to hedge exposures to anticipated changes in interest rates on forecasted issuances of debt. As at December 31, 2012, the Corporation had outstanding bond forward agreements with fixed interest rates ranging from 2.39% to 2.47% as follows:

		December 31, 2012		December 31, 2011	
(in millions)	Maturity	Notional principal amount	Fair value	Notional principal amount	Fair value
Interest rate risk management					
Bond forward agreements	February 2013	$ 150	$ (1)	$ –	$ –
Bond forward agreements	October 2013	300	(3)	–	–
		$ 450	$ (4)	$ –	$ –

Market risk

By virtue of its operations, the Corporation is exposed to changes in commodity prices, interest rates, and foreign exchange rates. SaskPower may utilize derivative financial instruments to manage these exposures. The Corporation mitigates risk associated with derivative financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

(a) Commodity prices

Natural gas contracts

The Corporation is exposed to natural gas price risk through natural gas purchased for its natural gas-fired power plants and through certain PPAs that have a cost component based on the market price of natural gas. As at December 31, 2012, the Corporation had entered into financial and physical natural gas contracts to price manage approximately 58% of its budgeted natural gas purchases for 2013, 53% for 2014, 46% for 2015, 41% for 2016, 37% for 2017, 30% for 2018, 26% for 2019, 20% for 2020, 15% for 2021 and 10% for 2022.

Based on the Corporation's December 31, 2012, closing positions on its financial natural gas hedges, a one dollar per gigajoule (GJ) increase in the price of natural gas would have resulted in a $79 million improvement in the unrealized market value gains recognized in profit or loss for the year. This sensitivity analysis does not represent the underlying exposure to changes in the price of natural gas on the remaining forecasted natural gas purchases which are unhedged as at December 31, 2012.

Electricity trading contracts

The Corporation is also exposed to electricity price risk on its electricity trading activities. Electricity trading risks are managed through limits on the size and duration of transactions and open positions, including Value at Risk (VaR) limits. VaR is a commonly used metric employed to track and manage the market risk associated with trading positions. A VaR measure gives, for a specific confidence level, an estimated potential loss that could be incurred over a specified period of time. VaR is used to determine the potential change in value of the proprietary trading portfolio, over a 10-day period within a 95% confidence level, resulting from normal market fluctuations. VaR is estimated using the historical variance/covariance approach.

VaR has certain inherent limitations. The use of historical information in the estimate assumes that price movements in the past will be indicative of future market risk. As such, it may be only meaningful under normal market conditions. Extreme market events are not addressed by this risk measure. In addition, the use of a 10-day measurement period implies that positions can be unwound or hedged within that period; however, this may not be possible if the market becomes illiquid. SaskPower recognizes the limitations of VaR and actively uses other controls, including restrictions on authorized instruments, volumetric and term limits, stress-testing of individual portfolios and of the total proprietary trading portfolio, and management review. At December 31, 2012, the VaR associated with electricity trading activities was $nil.

(b) Interest rates

Short- and long-term borrowings

The Corporation is exposed to interest rate risk on the Corporation's short-term variable interest rate debt. At December 31, 2012, SaskPower had $763 million in short-term advances outstanding. The Corporation is also exposed to interest rate risk arising from fluctuations in interest rates on future short-term and long-term borrowings. Interest rate risk on these expected future borrowings is managed by having an appropriate mix of fixed and floating rate debt. The expected borrowings in 2013 are $733 million, of which $133 million is short-term. The Corporation has entered into bond forward agreements to hedge exposures to anticipated changes in interest rates on forecasted issuances of $600 million of long-term debt in 2013. The Corporation expects to have an average balance of $830 million in short-term advances outstanding throughout 2013. If interest rates were to increase by 100 basis points this would result in approximately an $8 million increase in finance charges related to this short-term variable interest rate debt.

Debt retirement funds

Debt retirement funds are monies set aside to retire outstanding debt upon maturity. The Corporation is required to pay annually into debt retirement funds which are held and invested by the Government of Saskatchewan's General Revenue Fund. The Corporation has classified these investments as fair value through profit or loss and, therefore, recognized the change in the market value in profit or loss for the period. At December 31, 2012, SaskPower had

$390 million in debt retirement funds. The fair value of the debt retirement funds is driven largely by interest rates. The estimated impact of a 1% increase in interest rates, assuming no change in the amount of debt retirement funds, would be a $32 million decrease in the market value of the debt retirement funds.

(b) Foreign exchange rates

The Corporation faces exposure to the United States/Canadian dollar exchange rate primarily through the sale of electricity to customers in the United States as well as from the purchase of goods and services that are payable in United States dollars. The Corporation may utilize financial instruments to manage this risk. As at December 31, 2012, the Corporation had no outstanding foreign exchange derivative contracts. The impact of fluctuations in foreign exchange rates on SaskPower's financial instruments is not considered significant to the Corporation and, therefore, a sensitivity analysis of the impact on profit or loss has not been provided.

Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Corporation does not have a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at December 31, 2012, is limited to the fair value of the financial assets recognized as follows:

(in millions)	**December 31 2012**	December 31 2011
Financial assets		
Accounts receivable and unbilled revenue	**$ 264**	$ 236
Risk management assets	**3**	6
Debt retirement funds	**390**	353
Investment	**1**	1
	$ 658	$ 596

(a) Accounts receivable and unbilled revenue is diversified among many residential, farm and commercial customers primarily throughout Saskatchewan. The following reflects an aging summary of the Corporation's customer accounts receivable balances for both electricity and non-electricity sales at December 31, 2012:

(in millions)	**December 31 2012**	December 31 2011
Current	**$ 247**	$ 217
30 to 59 days	**4**	8
60 to 89 days	**4**	3
90 days and greater	**12**	11
	267	239
Allowance for doubtful accounts	**(7)**	(7)
Miscellaneous receivables	**4**	4
	$ 264	$ 236

The allowance for doubtful accounts is reviewed quarterly based on an estimate of outstanding amounts that are considered uncollectible. Historically, the Corporation has not written-off a significant portion of its accounts receivable balances.

(b) SaskPower is also exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations. The Corporation maintains Board-approved credit policies and limits in respect to its counterparties.

(c) Debt retirement funds are on deposit with Government of Saskatchewan's General Revenue Fund and invested as the Minister of Finance may determine. At December 31, 2012, the Minister has invested these funds primarily in provincial government and federal government bonds with varying maturities to coincide with related long-term debt maturities and are managed based on this maturity profile and market conditions. As such, the related credit risk associated with these investments as at December 31, 2012, is considered low.

(d) In 2009, the Corporation converted its investment in Aurora Trust Series A Asset-Backed Commercial Paper (Aurora) to longer-term interest paying notes, Master Asset Vehicle II (MAVII), which will be paid off as the underlying assets mature. As of December 31, 2012, the investment has been written-down by 30% to reflect the uncertainty with respect to SaskPower being repaid the full value of its initial investment. It is recognized in other assets on the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due or can do so only at excessive cost. SaskPower manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The following summarizes the contractual maturities of the Corporation's financial liabilities at December 31, 2012:

			Contractual cash flows				
(in millions)	Carrying amount	Contractual cash flows	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Financial liabilities							
Accounts payable and accrued liabilities	$ 338	$ 338	$ 338	$ –	$ –	$ –	$ –
Accrued interest	52	52	52	–	–	–	–
Risk management liabilities	38	38	38	–	–	–	–
Short-term advances	763	763	763	–	–	–	–
Long-term debt	2,913	5,986	38	188	173	519	5,068
	$ 4,104	**$ 7,177**	**$ 1,229**	**$ 188**	**$ 173**	**$ 519**	**$ 5,068**

Management believes its ability to generate and acquire funds will be adequate to support these financial liabilities.

26. Capital management

The Corporation's objective when managing capital is to ensure adequate capital to support the operations and growth strategies of the Corporation. SaskPower raises most of its capital through internal operating activities and through funds obtained by borrowing from the Government of Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Government of Saskatchewan's strong credit rating. *The Power Corporation Act* provides the Corporation with the authority to have outstanding borrowings of up to $5 billion. This includes $1.4 billion which may be borrowed by way of temporary loans through the Government of Saskatchewan and through available credit of $51 million at financial institutions.

The Corporation's capital structure consists of long-term debt net of debt retirement funds, short-term advances, finance lease obligations, bank indebtedness, retained earnings, accumulated other comprehensive loss and equity advances.

The Corporation monitors its capital structure using the per cent debt ratio. The per cent debt ratio target is 60% to 75%. The per cent debt ratio is calculated as total net debt divided by total capital as follows:

(in millions)	**December 31 2012**	December 31 2011
Long-term debt	**$ 2,913**	$ 2,707
Short-term advances	**763**	251
Finance lease obligations	**552**	555
Total debt	**$ 4,228**	$ 3,513
Debt retirement funds	**(390)**	(353)
Bank indebtedness	**–**	6
Total net debt	**$ 3,838**	$ 3,166
Retained earnings	**1,204**	1,204
Accumulated other comprehensive loss	**(6)**	–
Equity advances	**660**	660
Total capital	**$ 5,696**	$ 5,030
Per cent debt ratio	**67.4%**	63.0%

27. Commitments and contingencies

(a) The Corporation has entered into PPAs that provide approximately 591 MW of generating capacity. Certain take-or-pay PPAs have been classified as finance leases and disclosed in *Note 21*. SaskPower has negotiated other PPAs which also will be classified as finance leases upon commissioning of the related generating facilities. The expected future minimum lease payments related to these PPAs is expected to be $2,530 million until 2033.

(b) SaskPower has entered into contracts to purchase natural gas expected to cost $817 million (2011 – $341 million) based on forward market prices until 2022. This includes fixed price forward contracts with a notional value of $811 million (2011 – $324 million) which apply for the own-use scope exception.

(c) At 2012 prices, the Corporation also has forward commitments of $1,030 million (2011 – $1,086 million) extending until 2024 for future minimum coal deliveries.

(d) The Corporation is forecasting to spend $1,150 million on capital projects in 2013.

(e) Through the Energy Performance Contracting (EPC) Program, the Corporation has guaranteed $26 million (2011 – $22 million) of energy savings to various customers. The EPC Program is a comprehensive facility improvement initiative designed to enhance the facilities of the customer while permanently reducing utility costs. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings are realized.

(f) SaskPower has committed to electricity and natural gas trading sales of $52 million (2011 – $14 million) and electricity and natural gas trading and transmission purchases of $103 million (2011 – $52 million). These contracts are considered derivative financial instruments and changes in their fair value have been included in profit or loss.

(g) The Corporation has issued letters of credit in the amount of $3 million (2011 – $6 million) related to electricity trading activities and physical natural gas purchases.

(h) SaskPower has various other legal matters pending which, in the opinion of management, will not have a material effect on SaskPower's consolidated financial position or results of operations.

28. Net change in non-cash working capital

(in millions)		2012		2011
Accounts receivable and unbilled revenue	$	(28)	$	(9)
Inventory		(8)		(16)
Prepaid expenses		(1)		(1)
Other assets		1		2
Accounts payable and accrued liabilities		–		105
	$	(36)	$	81

29. Related party transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

The Corporation also pays Saskatchewan provincial sales tax on all its taxable purchases to the Government of Saskatchewan Ministry of Finance. Taxes paid are recorded as part of the cost of those purchases.

Key management personnel compensation

Key management personnel include Directors and executive officers. The compensation paid to key management for employee services is shown below:

(in millions)		2012		2011
Salaries and short-term employee benefits	$	4	$	4
Post-employment benefits		–		–
Termination benefits		–		–
Other long-term benefits		–		–
	$	4	$	4

30. Employee benefits

(in millions)		Defined benefit pension plan		Other benefit plans		Total
Employee benefits						
Balance, January 1, 2011	$	147	$	56	$	203
Employee benefits (income) expense		(1)		9		8
SaskPower funding contribution		(27)		–		(27)
SaskPower benefits paid		–		(12)		(12)
Actuarial loss (gain)		143		–		143
Balance, December 31, 2011	$	262	$	53	$	315
Employee benefits (income) expense		(5)		10		5
SaskPower funding contribution		–		–		–
SaskPower benefits paid		–		(13)		(13)
Actuarial loss (gain)		33		–		33
Balance, December 31, 2012	$	290	$	50	$	340

Defined benefit pension plan

The Corporation sponsors a defined benefit pension plan (the Plan) that has been substantially closed to employees since 1977. The Plan is governed by *The Superannuation (Supplementary Provisions) Act* and *Regulations*, as well as *The Power Corporation Superannuation Act*.

The Plan provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. Pensions are increased annually at a rate equal to 70% of the increase in the Saskatchewan consumer price index (CPI). The measurement date of the latest actuarial valuation used to determine the Plan assets and obligations was September 30, 2012 and the results were extrapolated to December 31, 2012.

The effective date of the most recent actuarial valuation for funding purposes was December 31, 2011. Under current Canada Revenue Agency guidelines, an actuarial valuation for funding purposes is to be completed at a minimum, every three years.

The Plan is solely the obligation of the Corporation. The Corporation is not obligated to fund the Plan but is obligated to pay benefits under the terms of the Plan as they come due.

(a) Status of the Plan

The actuarial valuation measured at September 30, 2012, and extrapolated to December 31, 2012, showed that the Plan had an actuarial deficit of $290 million (2011 – $262 million). The calculation of the pension plan deficit is as follows:

(in millions)	**December 31 2012**	December 31 2011	December 31 2010	January 1 2010
Plan assets				
Fair value, beginning of year	**$ 726**	$ 744	$ 700	$ 640
Actual return on plan assets	**78**	9	67	79
Employer funding contributions	**–**	27	27	27
Employee funding contributions	**1**	–	1	1
Benefits paid	**(59)**	(54)	(51)	(47)
Fair value, end of year	**$ 746**	$ 726	$ 744	$ 700
Accrued benefit obligation				
Balance, beginning of year	**$ 988**	$ 891	$ 863	$ 717
Current service cost	**2**	3	7	7
Interest cost	**41**	45	48	55
Benefits paid	**(59)**	(54)	(51)	(47)
Actuarial loss on accrued benefit obligation	**64**	103	24	131
Balance, end of year	**$ 1,036**	$ 988	$ 891	$ 863
Plan deficit	**$ (290)**	$ (262)	$ (147)	$ (163)

(b) Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are:

	December 31 2012	December 31 2011	December 31 2010	January 1 2010
Discount rate, beginning of year	**4.25%**	5.25%	5.75%	7.50%
Discount rate, end of year	**3.75%**	4.25%	5.25%	5.75%
Expected long-term rate of return on plan assets, beginning of year	**6.75%**	6.75%	6.75%	6.75%
Expected long-term rate of return on plan assets, end of year	**6.75%**	6.75%	6.75%	6.75%
Long-term rate of compensation increases	**2.00%**	3.50%	3.50%	3.50%
Remaining service life (years)	**0.00**	0.30	0.70	1.33
Long-term inflation rate	**2.50%**	2.50%	2.50%	2.50%
Assumptions for benefit increases (% of CPI)	**70.00%**	70.00%	70.00%	70.00%

The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by IFRS. Two of the most significant assumptions are the discount rate and expected long-term rate of return on plan assets. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The expected long-term rate of return on Plan assets is based upon the asset mix of the Plan and expected returns for each asset class.

(c) Benefit plan asset allocation

The following is a summary of the asset mix of the Plan's investments:

	December 31 2012	December 31 2011	December 31 2010	January 1 2010
Equity securities	**52.5%**	53.0%	56.7%	57.2%
Debt securities	**35.4%**	36.1%	34.2%	34.3%
Short-term securities	**0.4%**	0.7%	0.7%	0.8%
Real estate and infrastructure	**11.7%**	10.2%	8.4%	7.7%
	100.0%	100.0%	100.0%	100.0%

(d) Employee benefits income

The following is a summary of the calculation of the employee benefits income recorded in OM&A expense using long-term assumptions as noted in (b) for the defined benefit pension plan:

(in millions)	**2012**	2011
SaskPower's current service cost	**$ 1**	$ 3
Interest on accrued benefit obligation	**41**	45
Expected return on plan assets	**(47)**	(49)
Employee benefits income	**$ (5)**	$ (1)

(e) Benefit payments

The benefit payments expected to be made to beneficiaries over the next five years are as follows:

(in millions)	**2013**	**2014**	**2015**	**2016**	**2017**
Expected benefit payments	$ 66	$ 66	$ 66	$ 66	$ 65

Defined contribution pension plan

The defined contribution pension plan is governed by *The Public Employees Pension Plan Act* and *Regulations* and certain sections of *The Superannuation (Supplementary Provisions) Act* and *Regulations*.

Under the defined contribution pension plan, the Corporation's obligations are limited to the contributions for current service. These contributions are charged to income when made. The employee benefits expense for the defined contribution pension plan recorded in OM&A expense is as follows:

(in millions)	**2012**	2011
Employee benefits expense	**$ 15**	$ 13

Other benefit plans

Other benefit plans include a defined benefit and a defined contribution severance plan, a supplementary superannuation plan and a voluntary early retirement plan.

The significant actuarial assumptions adopted in measuring the Corporation's other benefit plans are:

	December 31 2012	December 31 2011	December 31 2010	January 1 2010
Discount rate	**3.25%**	3.75%	3.25% - 4.00%	3.00% - 4.00%
Long-term rate of compensation increases	**2.00%**	3.50%	3.50%	3.50%
Long-term inflation rate	**2.50%**	2.50%	2.50%	2.50%
Remaining service life (years)	**7.85**	8.19	8.52	8.73

Cumulative actuarial gains and losses

The cumulative amount of actuarial gains and losses recorded in other comprehensive income related to the Corporation's defined benefit pension plans is as follows:

(in millions)	**December 31 2012**	December 31 2011	December 31 2010
Balance, beginning of year	**$ 146**	$ 3	$ –
Actuarial loss (gain) on plan assets:			
Experience adjustments	**(31)**	40	(20)
Changes in actuarial assumptions	**–**	–	–
Actuarial loss (gain) on accrued benefit obligations:			
Experience adjustments	**9**	2	(20)
Changes in actuarial assumptions	**55**	101	43
Balance, end of year	**$ 179**	$ 146	$ 3

These amounts have been transferred from accumulated other comprehensive income to retained earnings as the actuarial gains and losses will not be reclassified to profit or loss in subsequent periods.

31. Subsequent events

SaskPower announced on December 31, 2012, that it will dissolve the Power Greenhouses Inc. legal entity. Effective January 1, 2013, the Power Greenhouses Inc.'s personnel and assets and liabilities were transferred to SaskPower. The Shand Greenhouse will continue to operate within SaskPower following dissolution of the legal entity.

Corporate governance

Accountability is a principal component of SaskPower's corporate values and is essential in our relationship with our customers, stakeholders and shareholder. In order to ensure the continuing presence of a sound corporate governance structure, our company remains committed to ongoing evaluation. Our aim is to strengthen transparency while executing a comprehensive program of reporting.

Company structure

SaskPower is governed by *The Power Corporation Act*. It is subject to the provisions of *The Crown Corporations Act, 1993*, which gives the Crown Investments Corporation (CIC) of Saskatchewan, the holding company for Saskatchewan's commercial Crown corporations, broad authority to set the direction of SaskPower. In practice, directives are normally in the following forms: CIC Crown subsidiary policies applying to all CIC Crowns; CIC Board resolutions and directives; and CIC management directives.

As the shareholder of SaskPower, CIC provides oversight of our company's operations. Communication is implemented through written policies and directives issued by CIC's management or its Board of Directors, as well as verbally through discussions with SaskPower leaders. Our company reports to CIC on a regular basis on matters such as Corporate Balanced Scorecard results, financial statements and forecasts, capital expenditures and debt obligations. SaskPower also provides ad hoc reports to CIC upon request.

Where required by legislation or policy directive, our company submits performance management and investment decisions for review and approval by CIC and provincial cabinet. Through its Chair, who is an outside Director, the SaskPower Board of Directors is accountable to the Minister Responsible for Saskatchewan Power Corporation. The Minister functions as a link between SaskPower and cabinet, as well as the provincial legislature.

The Legislative Assembly of Saskatchewan appoints members to the Standing Committee on Crown and Central Agencies at the beginning of each legislative session. This committee holds public hearings and is empowered to review the annual reports, financial statements and operations of Crown corporations and related agencies. The Minister Responsible for Saskatchewan Power Corporation and our company's senior executives are called before the committee to answer questions about the year under review and issues of topical concern.

Governing our company

The Board of Directors is responsible for the general stewardship of SaskPower. It is accountable for setting direction, monitoring and evaluating achievement, as well as identifying any necessary corrective action for SaskPower. The Board works with management to develop and approve SaskPower's Strategic Plan, annual budget and Business Plan. It participates in identifying business risks and oversees the implementation of appropriate systems to achieve a balance between risks incurred and potential returns.

All of SaskPower's Board Members, including the Chair are independent of management. The expectations and responsibilities of Directors are outlined in terms of reference. Board Members receive a comprehensive orientation and continuing education. In addition to being subject to SaskPower's Code of Conduct Policy, Board Members are also bound by the CIC Directors' Code of Conduct. Peer evaluations are completed every two years.

Director	Meetings attended[1]
Joel Teal, Chair	9
Bill Wheatley, Vice-chair	9
Tammy Cook-Searson[2]	1
Ian Coutts[3]	3
Judy Harwood	9
Mitchell Holash	9
Nick Kaufman	8
Bryan Leverick	5
Mick MacBean	8
Andy McCreath	8
Randell Morris[4]	6
Lorne Mysko	9
Leslie Neufeld[5]	8

1. There were a total of 9 meetings held in 2012.
2. Appointment cancelled February 1, 2012.
3. Resigned November 26, 2012.
4. Appointed February 1, 2012, deceased October 16, 2012.
5. Appointed February 1, 2012.

Visit saskpower.com for a full description of SaskPower's corporate governance practices, including Board and Director terms of reference.

Leadership by committee

During the year, the Board reviewed the strategic direction of SaskPower, as well as numerous operational, financial, environmental, human resource and governance items. The Board also continues to adopt policies and processes to enable effective communication with our shareholder, stakeholders and the public.

Our company's Board has standing committees to assist in discharging specific areas of responsibility. In 2012, the Board had three standing committees:

Audit & Finance Committee
Five meetings
Chair: Mick MacBean
Members: Ian Coutts, Bryan Leverick, Bill Wheatley and Leslie Neufeld

The Audit & Finance Committee's terms of reference mandate the committee to assist the Board in meeting its responsibilities with respect to financial reporting, internal controls and accountability. The committee oversees the risk management reporting of SaskPower and directly interacts with the internal and external auditors. The committee ensures that the Board is provided with financial plans, proposals and information that are consistent with our company's overall strategic planning and public policy objectives.

During 2012, the committee reviewed annual and interim financial statements, regular risk reporting packages, Corporate Balanced Scorecard reporting, the 2013 Business Plan, as well as the Deloitte and Provincial Auditor 2011 audit summaries. The committee approved the work plan for the Internal Audit Department and monitored quarterly reporting on irregularities. Although there were no material irregularities in 2012, quarterly reporting enhances and underscores ongoing vigilance in this area.

The committee is also responsible for reviewing proposed capital and operating, maintenance and administration projects and initiatives that are material from a risk or value perspective prior to referral to the Board. In 2012, the committee recommended to the Board that SaskPower proceed to the next phase of its Advanced Metering Infrastructure program. The committee also recommended that SaskPower proceed with a rate application for 2013. Several significant Aboriginal policy initiatives were also reviewed, including an Aboriginal Procurement Policy, an Aboriginal Relations Policy, an Aboriginal Business Development Policy and an agreement with the First Nations Power Authority to explore new generation opportunities. In addition, the committee monitored the progress of SaskPower's Boundary Dam Integrated Carbon Capture and Storage Demonstration Project and reviewed and recommended to the Board a contract for the sale of carbon dioxide (CO_2) to be produced from the facility.

Environment, Occupational Health & Safety Committee
Four meetings
Chair: Judy Harwood
Members: Mitch Holash, Nick Kaufman, Andy McCreath and Lorne Mysko

The Environment, Occupational Health & Safety Committee is charged with ensuring that our company proactively addresses safety, health and environmental issues and is in compliance with regulatory and statutory requirements. Highlights of the committee's activities in 2012 include: reviewing SaskPower's General Health and Safety Policy; monitoring SaskPower's safety performance throughout the year; and reviewing the condition of SaskPower's dam and ash lagoon facilities following heavy rainfall experienced in 2012.

Although the committee reviews its terms of reference annually, in 2012 the committee undertook a comprehensive review of its terms of reference in comparison to the written mandates of environmental and safety committees of several other corporations. Further work on aligning the committee's terms of reference with best practices will occur in 2013.

The committee also continued to monitor developments in environmental legislation and their potential impacts on SaskPower, including the Saskatchewan Environmental Code and federal regulations to reduce greenhouse gas emissions.

Governance/Human Resources Committee
Six meetings
Chair: Bryan Leverick
Members: Judy Harwood, Mitch Holash and Lorne Mysko

The Governance/Human Resources Committee is responsible for the development, review and effectiveness of SaskPower's corporate governance practices. The committee's governance-related duties include serving as ethics advisor for the Board, monitoring and evaluating overall Board performance on a biannual basis, providing guidance on governance issues to Directors, and recommending governance issues for discussion by the Board or committees.

In 2012, the committee reviewed and recommended to the Board for approval: amendments to the bylaws of two SaskPower subsidiaries; revisions to SaskPower's corporate contributions programs; a new Governance Manual for the Corporation; and the transfer of the assets and operations of Shand Greenhouse, a wholly-owned subsidiary, to the company.

The Governance/Human Resources Committee is also charged with overseeing SaskPower's human resources strategies, programs and practices. In 2012, the committee reviewed and recommended to the Board: a Social Media Policy; a Total Compensation Philosophy; updates to SaskPower's Code of Conduct; and the initiation of a corporate job evaluation review, which will continue into 2013.

Assessing our governance performance

Our company is committed to regularly revisiting key elements of SaskPower's decision-making processes to ensure we continue to meet best practice standards. As a Crown corporation, SaskPower is not required to comply with Canadian Securities Administrators (CSA) Governance Guidelines. However, we use these guidelines to benchmark our governance practices. Our company's practices are substantially consistent with CSA standards, as set out in the following scorecard.

CSA national policy 58-201 Part 3 – Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
Composition of the Board		
3.1 The Board should have a majority of independent Directors.	As of December 31,2012, the Board was comprised of 10 independent Directors.	Yes
3.2 The Chair of the Board should be an independent Director. Where this is not appropriate, an independent Director should be appointed to act as "Lead Director." However, either an independent Chair or an independent Lead Director should act as the effective leader of the Board and ensure that the Board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent Director.	Yes
Meetings of independent Directors		
3.3 The independent Directors should hold regularly scheduled meetings at which non-independent Directors and members of management are not in attendance.	All members are independent. The Board typically has at least one in camera session without management at every meeting.	Yes
Board mandate		
3.4 The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	The Board has a written mandate in its terms of reference, where it explicitly acknowledges that the Board of Directors functions as a steward of the company.	Yes

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
(a) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	The terms of reference for a Director state that Directors shall require "of themselves and corporate employees high standards of ethical behaviour…" The President and CEO mandate also places accountability on that position for ensuring activities and practices of the company are ethical and compliant with the law.	**Yes**
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	The Board, working with the executive, provides strategic direction to SaskPower. Formally, this is accomplished with the annual approval of the Strategic Plan.	**Yes**
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	The Board identifies principal risks to the company on an annual basis. Either directly or through the Audit & Finance Committee, the Board monitors the company's risk management programs. It also oversees the implementation of risk-management systems. The Audit & Finance Committee meets regularly to review reports and discuss significant risk concerns with both the internal and external auditors.	**Yes**
(d) succession planning (including appointing, training and monitoring senior management);	The Board terms of reference state that the Board is responsible for succession planning.	**Yes**
(e) adopting a communication policy for the issuer;	Pursuant to the Board terms of reference, the Board adopts policies and processes to enable effective communication with CIC, stakeholders and the public.	**Yes**
(f) the issuer's internal control and management information systems; and	The Board has approved an internal control program. SaskPower has documented and evaluated the design of the company's internal controls over financial reporting, including the adequacy of its information systems. Our company has developed a testing program to regularly evaluate the effectiveness of these controls. SaskPower's CEO and CFO annually certify that our company has developed an appropriate set of internal controls over financial reporting and that the controls are working effectively.	**Yes**
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.[1]	The Governance/Human Resources Committee is responsible for and reports to the Board on corporate governance matters. The committee also functions as the ethics advisor for the Board.	**Yes**
The written mandate of the Board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the Board may wish to establish a process to permit stakeholders to directly contact the independent Directors), and	The Board assumes responsibility for adopting policies and processes to enable effective communication with the shareholder, stakeholders and the public. To facilitate feedback from employees, the Board has adopted a whistle blower policy.	**Yes**
(ii) expectations and responsibilities of Directors, including basic duties and responsibilities with respect to attendance at Board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	Expectations and responsibilities of Directors, including participation in and preparation for meetings, are outlined in the terms of reference for a Director.	**Yes**

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1. Issuers may consider appointing a Corporate Governance Committee to consider these issues. A Corporate Governance Committee should have a majority of independent Directors, with the remaining members being "non-management" Directors.

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
Position descriptions 3.5 The Board should develop clear position descriptions for the Chair of the Board and the Chair of each Board committee. In addition, the Board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The Board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	The Governance/Human Resources Committee annually reviews the terms of reference for the Board Chair as well as Committee Chairs. These are approved by the Board. The Board has also adopted a President and CEO mandate.	Yes
Orientation and continuing education 3.6 The Board should ensure that all new Directors receive a comprehensive orientation. All new Directors should fully understand the role of the Board and its committees, as well as the contribution individual Directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its Directors). All new Directors should also understand the nature and operation of the issuer's business.	The Governance/Human Resources Committee terms of reference state that it shall recommend a Director orientation and continuing education policy. New Directors receive a comprehensive orientation to corporate issues and processes. Comprehensive briefing materials are also provided to new members covering key aspects of our company's business. The expectations of individual Directors are set out in the terms of reference for a Director approved by the Board. These expectations include attendance at meetings, participation in Board and committee work, and advance preparation for each meeting.	Yes
3.7 The Board should provide continuing education opportunities for all Directors, so that individuals may maintain or enhance their skills and abilities as Directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	SaskPower Board Members are offered the opportunity to attend The Director's College. Sponsored by CIC, this modular program focuses on the highest calibre governance practices, including technical and behavioural aspects of board governance. Directors who complete all five modules of the program are eligible to write a final examination and receive certification as a chartered corporate Director. In addition, our company provides opportunities to participate in site visits and tours. The Board also receives industry-specific briefings as a backdrop for policy and investment decisions.	Yes
Code of Business Conduct and Ethics 3.8 The Board should adopt a written Code of Business Conduct and Ethics (a Code). The Code should be applicable to Directors, officers and employees of the issuer. The Code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	SaskPower has a written Code of Conduct Policy applicable to Directors, officers and employees. It is intended to provide both general and specific guidelines to protect and guide SaskPower personnel faced with ethical, moral and legal dilemmas during the course of their employment or in carrying out their duties. The Board has the responsibility to review and revise the Code, as required. The Board has further strengthened this directive by adopting a whistle blower policy and implementing an anonymous reporting process to help deter wrongdoing. Quarterly irregularity reporting has been implemented to keep the Board informed of compliance issues.	Yes
(a) conflicts of interest, including transactions and agreements in respect of which a Director or Executive Officer has a material interest;	The Code addresses conflicts of interest. Board Members complete and file annual conflict of interest declarations with the office of the General Counsel as well as declare any conflicts on the spot as they may arise in a meeting setting. Board Members are also bound by the CIC Directors' Code of Conduct.	Yes
(b) protection and proper use of assets and opportunities;	Property and inventions are covered in the Code as well as the appropriate use of business assets.	Yes
(c) confidentiality of corporate information;	Confidentiality is covered in the Code, including SaskPower information that contains third party information and personal information about personnel and customers.	Yes

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Fair dealing is covered in the General Conduct Principles section of the Code as follows: "SaskPower expects personnel to conduct themselves…in a manner that is and is perceived to be fair and evenhanded, and to carry on their activities within the scope of their duties and in compliance with applicable laws and this Code and related policies. The public is entitled to expect and receive…fair and equitable treatment and compliance with confidentiality expectations and laws, whether in the provision of services or in the acquisition of property."	**Yes**
(e) compliance with laws, rules and regulations; and	The Code requires Directors, officers and employees to comply with applicable laws and related policies.	**Yes**
(f) reporting of any illegal or unethical behaviour.	The Code places an onus on employees to report suspected illegal or unethical behaviour. This is facilitated by specific procedures for reporting and investigating unethical conduct and other irregularities, which are appended to the Code.	**Yes**
3.9 The Board should be responsible for monitoring compliance with the Code. Any waivers from the Code that are granted for the benefit of the issuer's Directors or Executive Officers should be granted by the Board (or a Board committee) only. Although issuers must exercise their own judgement in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a Director or Executive Officer which constitutes a material departure from the Code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the Code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the Board has or has not sanctioned the departure(s), and • any measures the Board has taken to address or remedy the departure(s).	The Governance/Human Resources Committee's terms of reference state that it shall monitor and report annually to the Board concerning compliance with the CIC Director's Code of Conduct and to "review and report to the Board on conflict of interest matters involving Directors." There were no waivers granted in 2012 with respect to Code compliance by Directors, Officers or employees.	**Yes**
Nomination of directors 3.10 The Board should appoint a Nominating Committee.	As a Crown corporation, the appointment and removal of Directors is the prerogative of the Lieutenant Governor in Council, as established by statute. The Governance/Human Resources Committee may review and recommend qualified potential candidates for the Board. The names of any recommended candidates are then submitted by the Board to CIC as shareholder.	**Substantial compliance**

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
3.11 The Nominating Committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the Board. In addition, the Nominating Committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate Directors, the selection and nomination of those Directors need not involve the approval of an independent Nominating Committee.	The terms of reference for the Governance/Human Resources Committee incorporate a written charter, which includes all terms referred to in the CSA guideline, with the exception of authority to delegate to individual members and subcommittees and member appointment and removal. The Board terms of reference state that any committee can obtain the advice and counsel of external advisors. However, it states the decision to engage such advisors rests with the Board.	**Substantial compliance**
3.12 Prior to nominating or appointing individuals as Directors, the Board should adopt a process involving the following steps: (a) Consider what competencies and skills the Board, as a whole, should possess. In doing so, the Board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	A skills profile, identifying the desired mix of experience and competencies required for the Board to effectively discharge its responsibilities, has been developed and is periodically updated.	**Yes**
(b) Assess what competencies and skills each existing Director possesses. It is unlikely that any one Director will have all the competencies and skills required by the Board. Instead, the Board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each Director, as these may ultimately determine the boardroom dynamic.	The Governance/Human Resources Committee, with assistance from the Corporate Secretary, maintains and updates a skills matrix of existing members. As needed, it conducts a gap analysis to identify skills required for future appointments to round out the Board's overall skill set.	**Yes**
The Board should also consider the appropriate size of the Board, with a view to facilitating effective decision making. In carrying out each of these functions, the Board should consider the advice and input of the Nominating Committee.	The terms of reference for the Governance/Human Resources Committee state that it shall recommend the size of the Board.	**Yes**
3.13 The Nominating Committee should be responsible for identifying individuals qualified to become new Board Members and recommending to the Board the new Director nominees for the next annual meeting of shareholders.	Pursuant to the Board terms of reference, the Board adopts policies and processes to enable effective communication with CIC, stakeholders and the public.	**Yes**
3.14 In making its recommendations, the Nominating Committee should consider: (a) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess; (b) the competencies and skills that the Board considers each existing Director to possess; and	The terms of reference for the Governance/Human Resources Committee require the Committee to "recommend to the Board the size, composition, required capabilities and compensation of the Board of Directors to meet the needs of the Corporation."	**Yes**
(c) the competencies and skills each new nominee will bring to the boardroom. The Nominating Committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board Member.	When seeking candidates to fill a vacancy, it is the responsibility of Executive Council to consider how the skills and competencies of each candidate fit with the identified gaps on the Board.	**Partial compliance**

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
Compensation 3.15 The Board should appoint a Compensation Committee composed entirely of independent Directors.	All members of the Governance/Human Resources Committee are independent Directors.	**Yes**
3.16 The Compensation Committee should have a written charter that establishes the Committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the Board. In addition, the Compensation Committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	The terms of reference for the Governance/Human Resources Committee incorporate a written charter, which includes all items referred to in the CSA guideline (with the exception of member appointment and removal, which is established by statute). The Board terms of reference state that any committee can obtain the advice and counsel of external advisors. However, it states the decision to engage such advisors rests with the Board.	**Substantial compliance**
3.17 The Compensation Committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the Board with respect to) the CEO's compensation level based on this evaluation;	The Governance/Human Resources Committee's terms of reference state that the CEO's review is based upon agreed-upon objectives, updated each year. While CEO compensation is not addressed specifically, the committee has the responsibility to review and monitor all management compensation and benefit programs. As SaskPower is not a publicly-traded company, the parameters for CEO compensation are set by its shareholder, CIC.	**Substantial compliance**
(b) making recommendations to the Board with respect to non-CEO Officer and Director compensation, incentive-compensation plans and equity-based plans; and	The Governance/Human Resources Committee has the responsibility to annually review and monitor management compensation and benefit programs and make recommendations to the Board. CIC, as shareholder, sets Director remuneration.	**Substantial compliance**
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	The Board annually approves the disclosure of the compensation of executive members and all employees earning more than $50,000 per year. The compensation is disclosed to the Standing Committee on Crown and Central Agencies of the Legislative Assembly, and ultimately the public, through payee disclosure. In addition, the President and CEO — and direct reports — are required to file their employment contracts, and any amendments thereto, with the Clerk of the Executive Council pursuant to *The Crown Employment Contracts Act*. Key management personnel compensation is disclosed in the notes to the consolidated financial statements.	**Yes**
Regular Board assessments 3.18 The Board, its committees and each individual Director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	The Governance/Human Resources Committee coordinates the assessment process with the assistance of the Corporate Secretary or an external service provider. Performance evaluations are conducted annually on a two-year cycle, with Board and Board Chair evaluations being conducted one year, and direct peer, Committee Chair and committee evaluations being conducted the following year. In 2012, evaluations were conducted of the Board and Board Chair.	**Yes**
(a) in the case of the Board or a Board committee, its mandate or charter, and	Comprehensive evaluation surveys have been developed that take into consideration the mandate of the Board as well as accepted good governance practices.	**Yes**
(b) in the case of an individual Director, the applicable position description(s), as well as the competencies and skills each individual Director is expected to bring to the Board.	Peer evaluations are completed every other year and are based on the position description for Directors.	**Yes**

Board of Directors

As at December 31, 2012

Full biographies are available at saskpower.com

Joel Teal
Chair
Saskatoon, Saskatchewan

Joel Teal recently retired as President of Dundee Developments/Homes by Dundee, where he worked since 1996. Dundee has operations located in Calgary, Edmonton, High River, Regina and the Saskatoon head office. Prior to this, Mr. Teal was the President and CEO of Preston Developments.

Mr. Teal has been an active member of his community. He is currently a Board Member of the Saskatchewan Roughriders Football Club. On two separate occasions he served a total of eight years as a Director of Canada Mortgage & Housing Corporation. He is also a past Director of the Saskatchewan Chamber of Commerce and the Saskatoon Regional Economic Development Authority. He was the Vice-president, Sponsorship, for the Labatt Brier 2000 and a Director and Chair of the Long Range Planning Committee of Riverside Country Club for several years. He served 12 years as a Board Member with the Saskatchewan Blue Cross, including two years as Board Chair.

Mr. Teal has been awarded the Saskatchewan Centennial Medal for Volunteerism and the Canada Medal of Bravery. He was also recognized as Canadian Home Builder Member of the Year by the Canadian Home Builders Association and, in 2008, Mr. Teal was named one of Saskatchewan's 10 Men of Influence by Saskatchewan Business Magazine. In 2009 he was a finalist for the Saskatchewan Chamber of Commerce Business Leader of the Year Award.

Bill Wheatley
Vice-chair
Regina, Saskatchewan

Bill Wheatley is retired. He was formerly Managing Director, Chief Compliance Officer and General Counsel at Greystone Managed Investments Inc., a local investment management firm with more than $34 billion in assets under management. He is a member of the Board of Directors of VIA Rail Canada and is Past Chairman of the Saskatchewan Securities Commission.

Mr. Wheatley graduated from the University of Saskatchewan, where he earned a degree in both Commerce and Law. He was called to the bar in 1973. Before starting work with Greystone, Mr. Wheatley was the head of a Regina real estate firm and Chief of Staff to the Minister Responsible for the Government of Saskatchewan Ministry of Finance and the Ministry of Justice.

Judy Harwood
Saskatoon, Saskatchewan

In October 2012, Ms. Harwood was elected Reeve of the Rural Municipality (RM) of Corman Park. Corman Park surrounds the city of Saskatoon and is the largest RM in Saskatchewan. Ms. Harwood holds a certificate from Cornell University in Essentials of Hospitality Management along with her Certified Hotel Administrator (CHA) designation. Ms. Harwood was voted one of Saskatchewan's 10 Women of Influence by Saskatchewan Business Magazine and awarded the Queen's Golden Jubilee Medal for Outstanding Community Service.

Ms. Harwood has served on numerous boards, including the boards of SaskTel, Saskatchewan Transportation Corporation, Saskatoon Prairieland Exhibition Park, Saskatoon and District Chamber of Commerce, Ronald McDonald House, Saskatoon Regional Economic Development Authority, Saskatoon Community Foundation and served as President of the North Saskatoon Business Association.

Mitchell Holash
Prince Albert, Saskatchewan

Mitchell Holash practices law as senior partner in the firm of Holash Logue McCullagh based in Prince Albert. He was awarded the professional distinction of Queen's Counsel in 2010. Mr. Holash has served as Chairman of the Saskatchewan Police Commission, and continues to serve provincially on the Lieutenant Governor's Saskatchewan Honours Advisory Council and as a trustee for the Saskatchewan Foundation for the Arts. He is appointed nationally to the Oversight Committee for the Indian Residential School Adjudication Secretariat.

As a volunteer, he has dedicated himself to the enhancement of our provincial community for more than 25 years, establishing several cultural and recreational facilities, provincial awards ceremonies and charitable organizations. Mr. Holash has been awarded the Saskatchewan Volunteer Medal, the Saskatchewan Centennial Medal and the Saskatchewan Association of Community Planners' Community Development Award, and has been a recipient of both Prince Albert's Citizen of the Year and Sportsman of the Year awards.

Nick Kaufman
Regina, Saskatchewan

Prior to retirement from the active practice of law in 2011, Nick Kaufman was a Senior Counsel at McCrank Stewart in Regina. Mr. Kaufman was the Vice-president of Law at SaskPower from 1989 to 1991. He has also held the positions of Partner and Senior Counsel at Rendek McCrank Barristers and Solicitors and Associate at Balfour Moss. He has served as Director of Pioneer Life Assurance Company and Director of Canadian Pioneer Management.

Mr. Kaufman was appointed to Queen's Counsel in 1985. He is an active member of the Regina community and is former Director and President of the Regina Rotary Club and former Director of the Saskatchewan Roughriders Football Club. Mr. Kaufman studied at the University of Saskatchewan where he earned a Bachelor of Arts and Bachelor of Laws (cum laude).

Bryan Leverick
Saskatoon, Saskatchewan

Bryan Leverick is the President of Saskatchewan-based Alliance Energy Ltd, and has been with the company since 1974. In addition to his role on the SaskPower Board of Directors, Mr. Leverick is the Chairman of the Board of the Saskatoon Regional Economic Development Authority, Vice-chair of the Royal University Hospital Foundation's Board of Directors, and Past Chairman of the Canadian Electrical Contractors Association.

Mr. Leverick has served as Past President of the Saskatchewan Construction Association, Saskatchewan Bid Depository, Saskatoon Construction Association, and Electrical Contractors Association. He is also a Past Chairman of the Saskatoon City Hospital Foundation and avid supporter of Ronald McDonald House and Farm in the Dell. In 2003, he was honoured with the Distinguished Service Award by the Saskatchewan Construction Association, and received the Person of the Year Award in 2006.

Mick MacBean
Calgary, Alberta

Mick MacBean joined Calgary-based private equity firm, TriWest Capital Partners as a Managing Director in 2010. From 1998 to 2010, he served as the CEO and Director of Diamond Energy Services, a Swift Current-based energy services company that he founded. Prior to that role, Mr. MacBean was employed by ARC Financial Corporation in a variety of disciplines, including merchant banking and private equity.

Mr. MacBean is the Lead Independent Director and Chair of the Audit Committee for Peyto Exploration and Development, a large natural gas producer listed on the Toronto Stock Exchange. He is a Director of numerous Western Canadian-based private businesses within the TriWest portfolio of companies, and also serves as the Chair of the Board of the Saskatchewan Hockey Hall of Fame.

Mr. MacBean holds a Bachelor of Commerce degree from the University of Saskatchewan and is also a Chartered Accountant and Chartered Director. He was recognized with the Gil Bennett Gold Standard Award for an outstanding graduating Chartered Director by McMaster University DeGroote School of Business and The Conference Board of Canada.

Andy McCreath
Calgary, Alberta

Andy McCreath, President of McCreath Communications, is a noted marketing, public relations and communications professional and producer of sophisticated geopolitically relevant and market-centric conferences and events. His projects encompass such topics as U.S. and Canadian relations, macroeconomics, leadership and global relations.

He has produced events from coast to coast across Canada and has worked with Alan Greenspan; United States Presidents Bill Clinton, George W. Bush and George Bush Sr.; Tony Blair; Colin Powell; Rudy Giuliani; Paul Volcker; Lance Armstrong; Donald Trump; Sarah Palin; and Arnold Schwarzenegger.

Mr. McCreath formerly worked at Wellington West Capital, BMO Nesbitt Burns, and the National Hockey League's head office in New York. In 2008, he was named one of Calgary's Top 40 under 40 and one of the 20 Leaders of Tomorrow by Business in Calgary Magazine. In 2009, Mr. McCreath was named one of Alberta's 50 Most Influential People by Alberta Venture Magazine. In 2011, he was named one of Canada's Top 40 under 40. He has also been presented with the Outstanding Young Alumni Award by the University of Saskatchewan.

Lorne Mysko

Saskatoon, Saskatchewan

Lorne Mysko and his wife operated Riverview Bed and Breakfast in Saskatoon until December 31, 2012. Mr. Mysko spent 33 years with the Royal Bank throughout Saskatchewan in several management positions before retiring in Saskatoon in 2001. Until 2008, he was a major shareholder in an automotive business in Saskatoon.

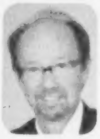
Throughout his years with the bank, Mr. Mysko volunteered with a variety of service clubs and local sporting organizations, holding office and directorships in many of them. In Saskatoon, he also served two terms with the City of Saskatoon Economic Development Board. Presently Mr. Mysko is on the Board of Directors of TCU Place, Primrose Lake Economic Development Corporation and Public Representative to the Law Society of Saskatchewan.

Leslie Neufeld

Swift Current, Saskatchewan

Leslie Neufeld holds a Bachelor of Administration degree from the University of Regina, and obtained her Chartered Accountant designation in 1996. Ms. Neufeld began her public practice career with Deloitte & Touche in Regina, Saskatchewan, and relocated to her hometown of Swift Current in 1996 to join Stark & Marsh Chartered Accountants, LLP.

Ms. Neufeld became a partner in 2006 and currently leads the Technical Services business unit, focused on providing tax and compliance services to individuals and corporations. She has also worked extensively in the field of trust and estate taxation. From June 2008 to June 2010 she served as a Member of Council for the Institute of Chartered Accountants of Saskatchewan and has also served on the Institute's Practice Appraisal Committee.



Dale Bloom

Corporate Secretary

Dale Bloom works for CIC, the holding company for Saskatchewan's commercial Crown corporations. He was part of a team at CIC that won the Lieutenant Governor's Gold Medal for Outstanding Public Service in Saskatchewan, as well as a Certificate of Achievement in the International Awards Programme for work in governance and performance management of public enterprises.

Dale has worked in the public sector for over 20 years in various capacities. He has several degrees, most recently attaining his MBA in 2011 from the Kenneth Levene Graduate School of Business at the University of Regina. He has been and continues to be involved in various charitable activities in Regina.

Compensation

Under the authority of *The Crown Corporations Act, 1993*, SaskPower's shareholder, CIC, directs the compensation received by Directors. In addition to reimbursement for reasonable expenses incurred while performing their duties (including related travel, meal and accommodation costs), Directors receive an annual retainer and meeting fees for service:

- The Board Chair receives an annual retainer of $15,000 and a $900 meeting fee.
- The Vice-chair and other Board Members receive an annual retainer of $10,000 and a $700 meeting fee.
- Committee Chairs receive an $800 Committee Chair meeting fee.

Executive team

As at December 31, 2012

Full biographies are available at saskpower.com

Robert Watson
President and CEO

Before joining SaskPower in August 2010, Mr. Watson served as President and CEO of SaskTel beginning in November of 2004. Prior to that appointment he held several senior executive positions in the Canadian communications industry. Mr. Watson is a graduate in Electrical Technologies from Ryerson University. He has attended the International Executive Development Program at the INSEAD Centre in Fontainebleau, France, as well as the Executive Management Program at Ashridge Business School in the United Kingdom. He also holds an ICD.D designation from the Institute of Corporate Directors.

Mr. Watson currently serves as a Board Member for The Conference Board of Canada, Canadian Electricity Association and Canadian Nuclear Association. In the community, he is a recipient of the Saskatchewan Centennial Medal and serves on the Prostate Cancer Canada Board and One Life Makes a Difference Board.

Diane Avery
Vice-president
Customer Services

Diane Avery was appointed Vice-president of Customer Services in May 2012. Prior to her position with SaskPower, Ms. Avery spent 25 years with SaskTel where she held several roles, including Director of Technology and Director of Marketing. In her past positions, Ms. Avery has focused on delivering a positive customer experience, has implemented innovative solutions to customer and employee challenges and has experience identifying real customer needs and ways to meet them.

Ms. Avery holds a Bachelor of Administration from the University of Regina. She has completed numerous professional development programs including Creating a Culture of Innovation at the Kellogg School of Management at Northwestern University and the Executive Marketing Program at the University of Western Ontario's Richard Ivey School of Business. She has also been the past Board President and Chair of the Queen City Kinsmen Gymnastics Club as well as a past Board Member on the Canadian Wireless Telecommunications Association. She currently represents SaskPower on the Customer Council for the Canadian Electricity Association.

Guy Bruce
Vice-president, Resource Planning, and
President and CEO, NorthPoint Energy Solutions

Guy Bruce was appointed to the SaskPower Executive in September 2011 after serving in an acting capacity since March 2010. Mr. Bruce is a Saskatchewan native with 34 years in the electricity industry, including two years with Ontario Hydro. Throughout his 32-year career with SaskPower, he has served the company in a variety of roles, which include plant engineering, system operations, energy and risk management and business performance and planning. Mr. Bruce is a professional electrical engineer who graduated from the University of Saskatchewan.

Jim Diotte
Vice-president
Human Resources

Jim Diotte joined SaskPower as Vice-President of Human Resources in May 2011. Prior to joining SaskPower, Jim Diotte served as Chief Human Resources Officer for Redknee Solutions Inc., a global software company, and as Director, Human Resources at Dell Canada. Over the course of his career, he has held positions with Stelco, George Weston and Pepsi in labour relations, compensation and organizational development. Mr. Diotte has a degree in Labour Studies from McMaster University, and is a member of both the Society for Human Resource Management and Institute of Corporate Directors.

Sandeep Kalra
Vice-president and Chief Financial Officer

Sandeep Kalra was appointed Vice-President and Chief Financial Officer, Finance, in 2009. Mr. Kalra joined SaskPower after eight years in various positions with Finning International, the world's largest Caterpillar distributor. His career with Finning began in 2000 as the Director of Finance and Corporate Controller. Mr. Kalra went on to become Vice-president of Finance for Finning South America based in Chile and then Vice-president and Corporate Treasurer at the company's head office in Vancouver. Prior to his work with Finning, he held financial positions with Hertz Corporation, PepsiCo, Deloitte and Samtel India. He is a Chartered Accountant through both the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of India. Mr. Kalra holds a Bachelor of Commerce degree with honours from Delhi University and an MBA from the Stern School of Business at New York University.

Tom Kindred
Vice-president and Chief Information Officer
Information, Technology & Security

Tom Kindred was appointed Vice-president and Chief Information Officer, Information, Technology & Security, in February 2009. Prior to his role with SaskPower, Mr. Kindred was Site Executive and Senior Vice-president of Innovation and Client Enhanced Services for MBNA Canada Bank/Bank of America. He spent over 10 years with CUETS Financial as the Executive Vice-president and CIO and 12 years in strategic and engineering positions at SaskTel. He has also served as a lecturer at the University of Regina's Faculty of Engineering.

Mr. Kindred graduated from the Executive Education Program at Harvard Business School in Boston and has a Master of Science in Electrical Engineering and a Bachelor of Applied Science in Electronic Information Systems Engineering from the University of Regina. He is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan. Mr. Kindred is Co-chair of the Canadian Electricity Association Technology Council.

John Lebersback
Vice-president
Power Production

John Lebersback was appointed Vice-president, Power Production, in September 2011, after serving in the role in an acting capacity since January 2010. Before moving into the Vice-president's role, Mr. Lebersback served as Chief Engineer, Engineering Services, and Manager, Operations Support. Prior to these positions, he served in several engineering and project management positions, working on thermal, hydro and wind generation projects.

Mr. Lebersback graduated from the University of Saskatchewan in 1974 with a Bachelor of Science degree in Electrical Engineering. In 1989, he earned a diploma in Business Administration from the University of Regina. He is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan. Mr. Lebersback currently serves on the Lignite Energy Council Board of Directors as a research member.

Outside of SaskPower, Mr. Lebersback has participated in Canadian Electricity Association committees, chaired the Thermal Interest Group, served as a Board Member of a local credit union and been an active member of several other organizations. He provides leadership and volunteer services to local community groups.

Mike Marsh
Vice-president, Operations,
and Chief Operating Officer

Mike Marsh was appointed Vice-president of Operations and Chief Operating Officer in October 2012. In this position, he is responsible for all operational issues for Power Production, Transmission Services and Distribution Services at SaskPower. Mr. Marsh has over 30 years of experience and joined SaskPower in 1991, following 12 years in the construction industry in Alberta and Saskatchewan. Once at SaskPower, he spent nine years in engineering and maintenance supervisory positions at the Boundary Dam Power Station and Power Production before serving as the Manager of Business and Financial Planning in Corporate and Financial Services for six years. He was appointed Vice-president of Transmission and Distribution in March 2007 and led this business unit through a period of change, transition and unprecedented growth in the province.

He attended the University of Saskatchewan, where he earned a Bachelor of Science degree in Mechanical Engineering. He later studied at Queen's School of Business and earned a Master's degree in Business Administration. He is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan. He currently represents SaskPower on the Canadian Electricity Association Transmission Council and has held positions on the Distribution Council and the Occupational Health and Safety Task Group.

Mr. Marsh is a past President of the local chapter of the Canadian Progress Club – Regina Centre, a service organization offering financial assistance to charities supporting children and wellness.

Judy May
Vice-president
Supply Chain Management

Judith (Judy) May took over as Vice-president of Supply Chain Management — a new functional area — upon its creation in February 2012. Ms. May's career with SaskPower has spanned the last 31 years. Prior to 2012, she served as Vice-president of Customer Services from December 2004. Since joining SaskPower in June of 1981, she has served in a variety of increasingly senior positions within Customer Services. While serving as Vice-president, Customer Services, she also served as the acting CEO of NorthPoint Energy Solutions, a subsidiary of SaskPower, from March 1 to October 17, 2007.

Ms. May is currently serving on the Board of Directors of the Regina United Way, as the Chair of the Resource Development Subcommittee. She also serves as the executive sponsor of SaskPower's Regina United Way Campaign.

Ms. May is also a Senator with Ranch Ehrlo, as in the past she served on the Board of Directors of Ranch Ehrlo from 2005-2009 and chaired the Board of Directors Human Resources Subcommittee of Ranch Ehrlo from 2007-2009.

Ms. May was a member of the Canadian Electricity Association Customer Council, serving as Chair for 2007-2008 and a member of the executive committee for 2009-2010. Ms. May, who was born and raised in Saskatchewan, holds a Bachelor of Administration with distinction (1981) from the University of Regina.

Michael Monea
President
Carbon Capture and Storage Initiatives

Michael Monea was appointed President, Carbon Capture and Storage Initiatives, in September 2011. He previously held the position of Vice-president, Integrated Carbon Capture and Storage Projects. Prior to his role with SaskPower, Mr. Monea was a Senior Vice-president with Canada Capital Energy Corporation.

He served as Executive Director of the Petroleum Technology Research Centre at the University of Regina and is currently Chairman of its Board. He has held a number of other executive and technical positions in the oil and gas sector. In 2008, he was appointed to the Society of Petroleum Engineers Distinguished Lecture Program as an expert in CO_2 storage. Mr. Monea holds professional engineer and geoscientist designations.

Grant Ring
Vice-president
Business Development

Grant Ring was appointed Vice-president, Business Development, in September 2011. He previously served as President and Chief Executive Officer of NorthPoint Energy Solutions since October 2007. During 2008, he also held the position of SaskPower's Acting Vice-president and Chief Financial Officer, Corporate and Financial Services.

From 2001 to 2007, Mr. Ring held the position of Treasurer, Financial Services, with Corporate and Financial Services, and prior to that role, spent 11 years in various positions with SaskPower. Before joining SaskPower in 1990, he was employed in various accounting positions in private sector manufacturing and construction. His work experience includes project and asset accounting, general accounting and reporting, business planning, treasury and banking, and pension plans in Saskatchewan.

Mr. Ring is a Board Member of the Power Corporation Superannuation Plan. He was previously a member of the Public Employees Pension Board and has held the position of Chair of Financial Executives International Canada. He has served on other non-profit boards as well.

Mr. Ring is a graduate of Queen's University, holding a Masters of Business Administration, and is a Certified Management Accountant. His contributions to the financial community were recognized in 2008 when he was named a Fellow of the Society of Management Accountants (FCMA). In 2007, he completed a certificate in Executive Coaching and in 2011 he achieved his ICD.D designation from the Institute of Corporate Directors.

Steve Sousa
Chief Commercial Officer

Steve Sousa joined SaskPower as Chief Commercial Officer on December 3, 2012. Mr. Sousa comes to SaskPower from SaskTel International (SI), which offers network and IT solutions and project consulting in Canada and around the world. Mr. Sousa started as Director of Marketing for SI in 2000 and held various positions with SaskTel and SI. He was appointed President and Chief Operating Officer of SI in 2009.

He holds an MBA and CMA, and was named one of Canada's Top 40 Under 40 in 2011, which recognizes exceptional Canadians who are outstanding leaders in their chosen fields and who are shaping Canada's future. Further, he was twice nominated for the Ontario Premier's Award recognizing exceptional accomplishments of Ontario graduates of post secondary programs. Mr. Sousa leads the newly formed Commercial area, which includes Major Projects, Service Delivery Renewal and Supply Chain Management.

Rachelle Verret Morphy
Vice-president, Law, Land and Regulatory Affairs,
General Counsel and Assistant Secretary

Rachelle Verret Morphy joined SaskPower in August of 2005. She is responsible for overseeing the Law, Land and Regulatory Affairs department and advising the President, Executive and Board of Directors on governance issues. Prior to joining SaskPower, Ms. Verret Morphy was Manager, Tax and Legal Consulting, with Concentra Financial. She also worked in private practice with MacPherson Leslie Tyerman, LLP, practicing corporate/commercial law with a focus on procurement, mergers and acquisitions, information technology and taxation.

Ms. Verret Morphy has a Bachelor of Laws from the University of Saskatchewan, and a Bachelor of Commerce (Honours) from the University of Ottawa. She is a member of the Law Society of Saskatchewan, Canadian Bar Association, Canadian Corporate Counsel Association and Association of Corporate Counsel. In addition, she is a Chartered Accountant through the Institute of Chartered Accountants of Saskatchewan and the Institute of Chartered Accountants of Ontario. She has volunteered as a legal advisor with Pro Bono Students Canada.

Compensation

CIC has established a framework for executive compensation, and SaskPower's Board can approve compensation packages within that framework. The Board has delegated responsibility for addressing and making recommendations concerning executive compensation issues to the Governance/Human Resources Committee. Executive performance is assessed annually against corporate and individual objectives that are aligned with our company's Strategic Plan. The mandate for executive compensation for Saskatchewan Crown corporations is established and monitored by CIC.

Direct reports of SaskPower's president & CEO, including all executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days of occurrence. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan requires Crown corporations, including SaskPower, to file an annual payee list that includes the total compensation of executive members.

Salary ranges for SaskPower's executive team, as of December 31, 2012, were:

- President and CEO: $246,738 to $308,423.
- Vice-president: $178,268 to $262,158.

Five-year financial summary

(in millions)	**IFRS 2012**	IFRS 2011	IFRS 2010	CGAAP 2009	CGAAP 2008
Consolidated statement of income					
Revenue					
Saskatchewan electricity sales	**$ 1,687**	$ 1,667	$ 1,575	$ 1,447	$ 1,385
Exports	**49**	40	12	12	33
Net sales from electricity trading	**14**	14	4	7	17
Share of profit from equity accounted investees	**12**	11	10	7	7
Other revenue	**100**	105	90	45	44
	1,862	1,837	1,691	1,518	1,486
Expense					
Fuel and purchased power	**513**	485	446	509	545
Operating, maintenance and administration	**612**	575	513	495	427
Depreciation and amortization	**316**	290	266	229	220
Finance charges	**200**	197	192	147	154
Taxes	**47**	43	42	39	35
Other losses	**27**	8	9	3	11
	1,715	1,598	1,468	1,422	1,392
Income before the following	**$ 147**	$ 239	$ 223	$ 96	$ 94
Unrealized market value adjustments	**6**	9	(19)	7	(30)
Net income	**$ 153**	$ 248	$ 204	$ 103	$ 64
Consolidated statement of financial position					
Assets					
Current assets	**$ 439**	$ 402	$ 377	$ 365	$ 342
Property, plant and equipment	**6,030**	5,387	4,923	4,258	3,890
Intangible assets	**62**	52	24	25	11
Debt retirement funds	**390**	353	291	246	212
Investments accounted for using equity method	**81**	77	71	32	29
Other assets	**9**	11	13	22	36
Total assets	**$ 7,011**	$ 6,282	$ 5,699	$ 4,948	$ 4,520
Liabilities and equity					
Current liabilities	**$ 1,293**	$ 699	$ 502	$ 574	$ 270
Long-term debt	**2,816**	2,707	2,708	2,567	2,571
Finance lease obligations	**547**	552	409	–	–
Employee benefits	**340**	315	203	46	43
Provisions	**157**	145	119	129	107
Equity	**1,858**	1,864	1,758	1,632	1,529
Total liabilities and equity	**$ 7,011**	$ 6,282	$ 5,699	$ 4,948	$ 4,520
Consolidated statement of cash flows					
Cash provided by operating activities	**$ 389**	$ 543	$ 437	$ 342	$ 320
Cash used in investing activities	**(950)**	(605)	(516)	(582)	(377)
Cash provided by (used in) financing activities	**567**	63	77	232	(21)
Increase (decrease) in cash position	**$ 6**	$ 1	$ (2)	$ (8)	$ (78)
Financial indicators					
Dividends	**$ 120**	$ –	$ –	$ –	$ 46
Capital expenditures	**$ 981**	$ 625	$ 538	$ 640	$ 422
Return on equity	**7.9%**	13.2%	13.4%	6.1%	6.2%
Per cent debt ratio	**67.4%**	63.0%	63.0%	61.4%	60.7%

The 2012, 2011 and 2010 financial information disclosed was prepared in accordance with International Financial Reporting Standards (IFRS). The 2009 and 2008 financial information disclosed was prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP).

Five-year revenue statistics

	2012	2011	2010	2009	2008
Number of Saskatchewan customer accounts					
Residential	**353,435**	345,854	340,518	334,684	328,719
Farm	**61,737**	62,475	61,577	62,245	62,712
Commercial	**58,435**	58,118	55,714	55,853	54,563
Oilfield	**16,894**	15,437	15,098	14,461	13,932
Power	**108**	99	98	84	78
Reseller	**2**	2	2	2	2
Total	**490,611**	481,985	473,007	467,329	460,006
Electricity sales (in millions)					
Residential	**$ 402**	$ 408	$ 382	$ 356	$ 322
Farm	**131**	145	141	136	125
Commercial	**365**	355	339	320	297
Oilfield	**263**	242	234	215	203
Power	**449**	440	404	346	366
Reseller	**77**	77	75	74	72
Saskatchewan electricity sales	**1,687**	1,667	1,575	1,447	1,385
Exports	**49**	40	12	12	33
Total electricity sales	**$ 1,736**	$ 1,707	$ 1,587	$ 1,459	$ 1,418
Electricity sales (GWh)					
Residential	**2,937**	3,006	2,882	2,865	2,721
Farm	**1,149**	1,298	1,292	1,338	1,306
Commercial	**3,532**	3,447	3,386	3,407	3,311
Oilfield	**3,177**	2,901	2,872	2,742	2,682
Power	**7,448**	7,321	6,932	6,139	6,898
Reseller	**1,254**	1,253	1,254	1,274	1,274
Saskatchewan electricity sales	**19,497**	19,226	18,618	17,765	18,192
Exports	**460**	449	244	224	409
Total electricity sales	**19,957**	19,675	18,862	17,989	18,601
Average electricity sales price ($/MWh)					
Residential	**$ 137**	$ 136	$ 133	$ 124	$ 118
Farm	**114**	112	109	101	96
Commercial	**103**	103	100	94	90
Oilfield	**83**	83	81	78	76
Power	**60**	60	58	56	53
Reseller	**61**	61	60	58	57
Exports	**107**	89	49	56	81
Total weighted average electricity sales price	**$ 87**	$ 87	$ 84	$ 81	$ 76
Average annual usage per residential customer (kWh)	**8,310**	8,692	8,464	8,560	8,278
Electricity trading					
Electricity trading revenue (in millions)	**$ 29**	$ 41	$ 35	$ 71	$ 127
Electricity trading sales (GWh)	**361**	618	613	1,461	1,813

Five-year generating and operating statistics

	2012	2011	2010	2009	2008
Net electricity supplied (GWh)					
Coal	**11,446**	11,614	12,038	12,317	11,405
Gas	**4,968**	4,032	3,682	3,432	3,812
Hydro	**4,240**	4,641	3,866	2,962	4,030
Wind	**655**	682	507	579	574
Imports	**656**	502	518	440	587
Other	**164**	140	148	134	72
Gross electricity supplied	**22,129**	21,611	20,759	19,864	20,480
Line losses	**(2,172)**	(1,936)	(1,897)	(1,875)	(1,879)
Net electricity supplied	**19,957**	19,675	18,862	17,989	18,601
Available generating capacity (net MW)					
Coal	**1,686**	1,686	1,686	1,682	1,682
Gas	**1,337**	1,337	1,251	1,113	914
Hydro	**853**	853	853	853	853
Wind	**198**	198	172	172	172
Other	**30**	20	20	20	20
Total available generating capacity	**4,104**	4,094	3,982	3,840	3,641
Peak loads (net MW)					
Annual peak load	**3,314**	3,195	3,162	3,231	3,194
Minimum load	**1,640**	1,728	1,636	1,561	1,664
Summer peak load	**3,053**	3,070	2,750	2,773	2,834
Lines in service (km)					
Transmission lines	**12,298**	12,576	12,705	12,404	12,311
Distribution lines	**138,959**	139,390	137,380	137,093	136,807
Total lines in service	**151,257**	151,966	150,085	149,497	149,118
Number of permanent full-time employees	**2,830**	2,701	2,727	2,653	2,541

System map

As at December 31, 2012

AVAILABLE GENERATION (net capacity)

■ HYDROELECTRIC

1. Athabasca Hydroelectric System - 23 MW
   - Wellington (5 MW)
   - Waterloo (8 MW)
   - Charlot River (10 MW)
2. Island Falls Hydroelectric Station - 101 MW
4. Nipawin Hydroelectric Station - 255 MW
5. E.B. Campbell Hydroelectric Station - 288 MW
13. Coteau Creek Hydroelectric Station - 186 MW

■ NATURAL GAS

3. Meadow Lake Power Station - 44 MW
7. Yellowhead Power Station - 138 MW
9. Ermine Power Station - 92 MW
10. Landis Power Station - 79 MW
12. Queen Elizabeth Power Station - 430 MW
15. Success Power Station - 30 MW

■ WIND

16. Cypress Wind Power Facility - 11 MW
18. Centennial Wind Power Facility - 150 MW

■ COAL

20. Poplar River Power Station - 582 MW
21. Boundary Dam Power Station - 828 MW
23. Shand Power Station - 276 MW

■ INDEPENDENT POWER PRODUCERS

6. Meridian Cogeneration Station - 210 MW
8. NRGreen Kerrobert Heat Recovery Facility - 5 MW
11. Cory Cogeneration Station - 228 MW
14. NRGreen Loreburn Heat Recovery Facility - 5 MW
17. SunBridge Wind Power Facility - 11 MW
19. NRGreen Estlin Heat Recovery Facility - 5 MW
22. NRGreen Alameda Heat Recovery Facility - 5 MW
24. Red Lily Wind Power Facility - 26 MW
25. Spy Hill Generating Station - 86 MW
26. Prince Albert Pulp Inc. - 10 MW
27. North Battleford Energy Centre - 261 MW (under construction as at December 31, 2012)

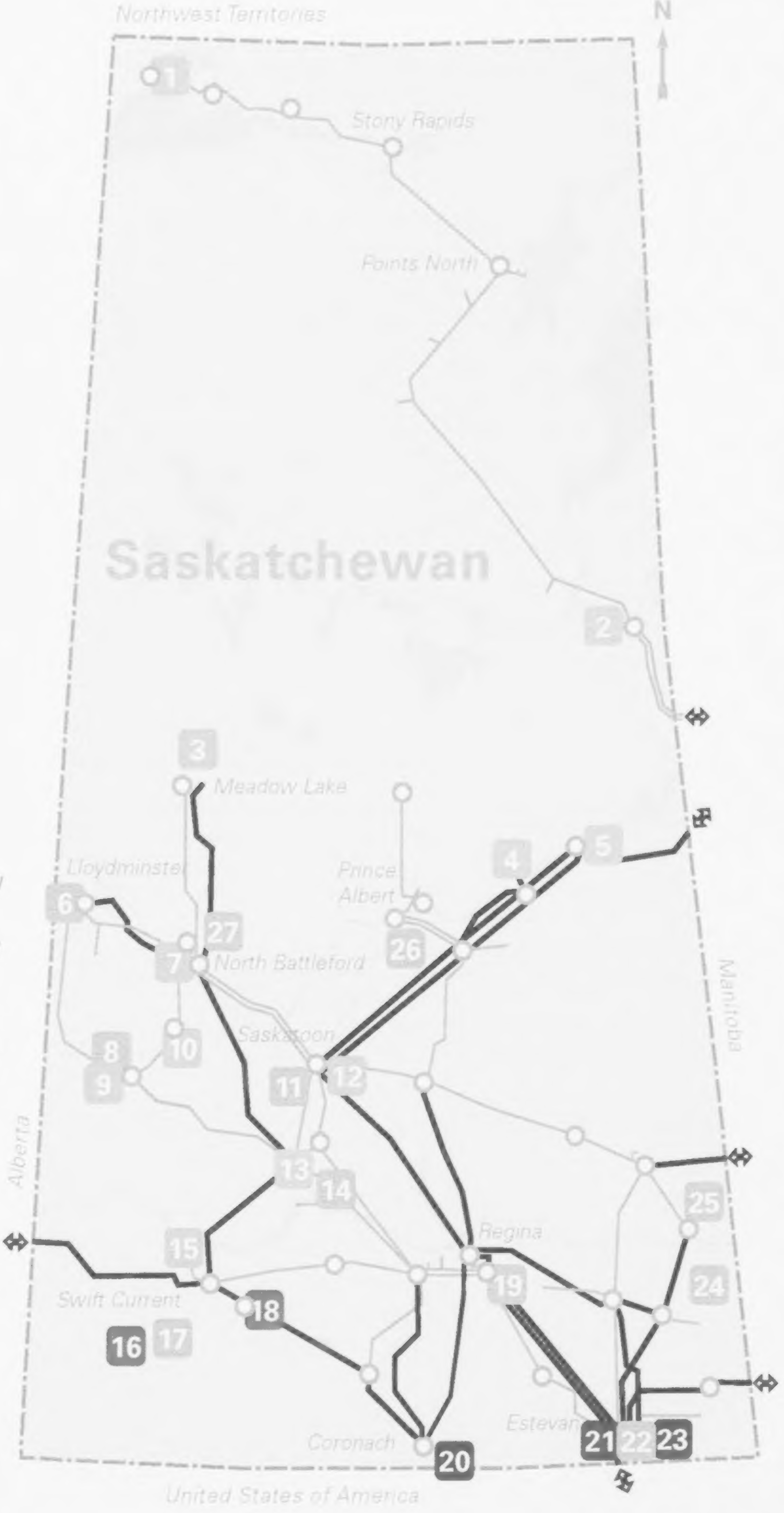
TRANSMISSION

━ 230 kV

─ 138 kV/115kV/110kV

○ Switching station

⬌ Interconnection



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